HOUSING AGENCY RESPONSES TO FEDERAL DEREGULATION: AN ASSESSMENT OF HUD'S "MOVINGTO WORK" DEMONSTRATION

JANUARY 2004

Housing Agency Responses to Federal Deregulation: An Assessment of HUD's "Moving to Work" Demonstration

Final Report

Prepared by:

Martin D. Abravanel
Robin E. Smith
Margery A. Turner
Elizabeth C. Cove
Laura E. Harris
Carlos A. Manjarrez

The Urban Institute
Metropolitan Housing and Communities Policy Center
Washington, DC

Prepared for:

Quadel Consulting Corporation
Washington, DC

Under contract to:

The U.S. Department of Housing and Urban Development
Washington, DC

January 2004

UI No. 07095-000-00

TABLE OF CONTENTS

EXECUTIVE SUMMARY

The U.S. Department of Housing and Urban Development's (HUD's) Moving to Work (MTW) demonstration, enacted in 1996, provides a small number of local Public Housing Authorities and state agencies that administer housing programs the opportunity to have more autonomy from federal regulation than is otherwise allowed under federal low-income Public Housing and Section 8 tenant-based assistance programs. The demonstration's purpose is to encourage policy, program, and administrative experimentation, and to assess the consequences of program devolution.

MTW was initially intended to last for three years. However, for many of the housing agencies (HAs) originally selected to participate, actual implementation did not begin until 1999 or 2000, and MTW has been extended to five or seven years for some of these HAs. Moreover, several new HAs have recently been enrolled in MTW—some of which are significantly different in size and performance histories than the first cohort of MTW participants. As of late 2003, therefore, the demonstration remains in operation. This report, which focuses exclusively on the first cohort of MTW HAs, describes and assesses their demonstration experiences to date.

These experiences provide unique insights with respect to what might happen if HAs were offered further deregulation opportunities, and on the implications of potential reforms in federal funding mechanisms and subsidy formulas. However, three key aspects of the demonstration limit what can be learned from it. First, the MTW legislation constrained the scope of deregulation in important respects, preventing or discouraging HAs from experimenting with some reforms that might be implemented if federal housing programs were more fully or permanently deregulated. Second, MTW was not designed as a rigorous research demonstration with clearly defined changes to be evaluated or a set of controls for the comparison of outcomes. And, finally, because HUD's standard tenant information system was not adapted to incorporate the unique, non-standard rent and income policies established by each MTW HA, critical data on the characteristics of public housing residents and Section 8 households have not been collected in a consistent and uniform fashion for the demonstration sites.

Of the original cohort of 24 MTW HAs selected to participate in October 1997, the 18 that remained in the demonstration as of October 2003 span the country, and include city, county, and state agencies—reflecting the variety of HAs that administer Public Housing and Section 8 programs across the nation. All, however, were considered to be high performers according to the assessment system in place at the time of their selection. The package of policy and procedural activities constituting MTW at each HA is unique, reflecting differing HA inclinations, capabilities, and philosophies as well as housing market conditions and political environments respecting the provision of housing assistance. And the scope of MTW-motivated activities varies tremendously from site to site.

Responses to Federal Deregulation

A portion of the demonstration participants experimented with significant procedural or policy changes, yet others had more limited objectives. Two-thirds of the 18 HAs made what can be characterized as 'systemic' changes to their programs and operations, meaning they attempted to alter basic HA practices and systems affecting whole classes of residents or operations. Six of these HAs also changed their funding arrangements with HUD by merging several forms of assistance in order to allow for increased fungibility of federal resources. The remaining HAs can be characterized as 'non-systemic' because they made changes that affected only a small number of households or only parts of their programs or operations. Indeed, deregulation opportunities have highlighted significant differences in HA philosophies, interests, priorities, and activities, as well as experiences.

While this suggests a wide range of HA responses to the deregulation opportunities afforded by MTW, it should be noted that none of the participating HAs altered the mix or character of their programs, delivery systems, or operations so much that they no longer resemble what they were essentially like prior to participation in MTW. What cannot be determined is whether the absence of major reconfigurations of inventories, programs, or management is due to the fact that the time period in which they have been involved in MTW is yet too short, the constraints imposed by the structure of the demonstration are too limiting, the local environments in which they operate are not adequately supportive, the training of HA personnel is not especially appropriate, or the need to make substantial change is not sufficiently compelling for HA officials. On the other hand, it is equally important to note that, to date, the lifting of federal rules and increased local control and direction of housing assistance programs does not seem to have resulted in untoward consequences or undesirable changes in the delivery, quality, or targeting of housing assistance and supportive services being offered by participating HAs.

In fact, MTW appears to have produced relatively modest, incremental policy, structural, and procedural changes. Although their longer-term impacts are not yet fully realized or knowable, it does seem to be the case, however, that especially creative and energetic HAs have used the opportunity to continue to innovate where they can—with MTW providing some additional flexibility, motivation, and momentum. Equally interesting is the fact that such HAs, as well as some others, have taken more strategic interest in their policies and activities in response to the greater responsibilities provided to them under MTW, and this seems to have resulted in more pride of ownership in programs and operations than is generally observed in the Public Housing and Section 8 programs. Local decision making has also, in some instances, increased the risk to HAs of having to suffer the financial or other consequences of locally fashioned policies or actions that, for one reason or another, did not produce beneficial or desired results.

MTW has spawned some interesting program and administrative variations that are relevant to ongoing policy discussion about the shape of the nation's low-income housing assistance policies. Three specific areas of interest involve (a) merging HUD funding assistance to allow for increased fungibility, (b) changing rent rules and subsidy formulas, and (c) attempting administrative reforms.

- **Funding fungibility.** The six HAs that merged their funding assistance have made limited, yet strategic uses of their funding fungibility authority, and some of them consider this authority essential to their ability to respond effectively to local conditions and preferences regarding low-income housing provision. Experiences have varied, however, across these HAs. Three of the merged-assisted agencies have used some of their funding resources to engage in development activities. Aside from development uses, the extent to which these and other merged-assistance HAs used their funding flexibility beyond what is permissible outside of MTW appears to be modest. Finally, it cannot be overlooked that some HAs were disadvantaged by merged-assistance arrangements, either because of agreement-related considerations, the negative financial impacts of some of their MTW policies, or unanticipated market, economic, or demographic changes that affected their program expenses and incomes.

- **Rent rules and subsidy formulas.** Officials of all of the HAs that applied to participate in MTW were eager to use the demonstration to experiment with alternatives to the traditional percent-of-income approach for calculating tenant rent contributions in the Public Housing and Section 8 programs. They experimented with a very wide range of alternative approaches, including some that completely detached the determination of rents from resident incomes. Unfortunately, given the design of MTW and the lack of consistent data on resident characteristics, there is no way to determine the impact of these changes with certainty. Many HAs report that employment and income levels have risen quite substantially during the period of MTW implementation, and are generally convinced that their reforms have encouraged residents to seek work, work more hours, and pursue opportunities to increase their incomes. Although rent contributions (and housing cost burdens) rose for some residents, there is no evidence of severe hardship or increased evictions from public and assisted housing.

- **Administrative reforms.** Many HAs used MTW to alter specific HUD procedural and reporting requirements that they considered redundant, unresponsive to local housing markets, or inconsistent with local needs. Most of these sites reported that their administrative changes produced small-scale improvements in efficiency and cost savings, and some believed that these changes saved staff time, enabling them to divert resources to fulfill other MTW objectives.

Implications for the Future

MTW has allowed local HAs to change some of the basic features of federal rental assistance programs, raising the fundamental question of whether low-income households and communities are better served when the terms of federal housing assistance are determined locally or when they are consistent across the country as a whole. There is no simple answer to this question. Under MTW, local, rather than national political realities constrained the choices that HAs could make. Some communities, particularly those with strong advocates for low-income households and housing issues, imposed more stringent constraints than those mandated by HUD on some issues. In other communities, however, the local political environment encouraged the HA to be much more restrictive about the terms and conditions of housing assistance while, in a few, there appears to be little or no local interest in public or assisted housing and no meaningful local oversight of HA decisions. In general, HAs appear to have been respectful of and responsive to local norms and priorities; none simply ignored community concerns or overruled local objections.

The local flexibility and independence permitted under MTW appears to allow strong, creative HAs to experiment with innovative solutions to local challenges, and to be more responsive to local conditions and priorities than is often possible where federal program requirements limit the opportunity for variation. But allowing local variation poses risks as well as provides potential benefits. Under MTW, some HAs, for instance, made mistakes that reduced the resources available to address low-income housing needs, and some implemented changes that disadvantaged particular groups of needy households currently served under federal program rules. Moreover, some may object to the likelihood that allowing significant variation across HAs inevitably results in some loss of consistency across communities.

The MTW experience suggests that if deregulation beyond what is authorized by the Quality Housing and Work Responsibility Act of 1998, or more funding fungibility authority than is currently permissible, were extended to a much larger group of HAs, the waiver-by-waiver

HUD approval process used for the current group of MTW HAs would be infeasible because of the administrative burden involved. One approach would be for HUD to provide a pre-defined set of waivers or fungibility allowances within the framework of some fundamental performance standards, mandating HA and independent measurement and reporting of outcomes in exchange for less federal control. Under this type of approach, HAs could take greater ownership of, and responsibility for, program design decisions, and experiment more freely over the long-term, while HUD could focus on ensuring that key performance standards were being maintained. The challenge here would be to define acceptable and appropriate performance standards and measures. What are the fundamental *federal* goals or requirements for low-income housing assistance? How can the achievement of these goals be measured systematically? And what level of performance must HAs achieve in order to remain in compliance with federal requirements?

Organization of this Report

Chapter 1 provides answers to some basic questions about the MTW demonstration, including why the demonstration is important to the national policy debate about the funding arrangements, terms, and management of federal housing assistance. It also answers questions about the status of MTW as of the date of this report, its limitations as a deregulation demonstration, and what can be learned at this stage.

Chapter 2 summarizes the larger policy context in which the MTW demonstration came into being in the mid-1990s, its legislative history and authority, and the demonstration process. Absent an understanding of this background, and going strictly by the title of the demonstration, it would be easy to misconstrue MTW's purposes and gist. This is followed, in Chapter 3, by a brief review of the assessment history of MTW and the methodology employed in this report and, in Chapter 4, by a description of the participating agencies and the kinds of initiatives undertaken under the auspices of MTW.

Although the approaches that HAs have taken to implementing MTW differ significantly from site to site, some types of changes emerge as important for multiple agencies—and highly relevant to ongoing policy discussions about the shape of federal housing assistance. Three chapters cover these categories of changes: Chapter 5 deals with funding fungibility; Chapter 6 deals with tenant subsidy formulas, rent rule policies, and time limits on the assistance provided; and Chapter 7 deals with various types of administrative changes.

The report concludes, in Chapter 8, with a review of key lessons suggested by the MTW experience to date, and consideration of their relevance to the larger housing policy debate about the funding, terms, and management of federal housing assistance.

Chapter 1
INTRODUCTION

Over the past several years the U.S. Department of Housing and Urban Development (HUD) has been administering a demonstration entitled Moving to Work (MTW). Broader than its title suggests, the demonstration provides a small number of local Public Housing Authorities and state agencies that administer housing programs (referred to here, collectively, as housing agencies, HAs)[1] the opportunity to have more autonomy from federal regulation than is otherwise allowed under HUD's low-income Public Housing and Section 8 tenant-based assistance programs. MTW was intended to encourage policy, program, and administrative experimentation—to see what works and what does not in varying contexts, and to allow assessment of the results and consequences of enhanced program devolution. This is a report on the demonstration experience to date.

Several initial questions about MTW are answered in this introductory chapter, including why the demonstration is important. Discussed also are the status of MTW as of the date of this report, its limitations as a deregulation demonstration, and what can be learned at this stage. The chapter concludes with an outline of the report's contents.

Why is MTW important?

Although public housing has evolved over more than six decades, its basic inter-governmental configuration—that of a program managed by local public agencies but centrally controlled and administered uniformly by the federal government—is remarkably close to the

[1] Of the initial cohort of 24 MTW HAs selected to participate in MTW immediately after establishment of the demonstration in 1996, the following continued to participate as of October 2003: Cambridge, MA; State of Delaware; Greene County, OH; High Point, NC; Keene, NH; Lawrence, KS; Lincoln, NE; Louisville, KY; State of Massachusetts; Minneapolis, MN; Portage County, OH; Portland, OR; San Antonio, TX; San Diego, CA; San Mateo County, CA; Seattle, WA; Tulare County, CA; and Vancouver, WA.

model first conceived in 1937. For reasons to be discussed in Chapter 2, that model is being challenged. Especially during the 1990s, various proposals were put forth from the executive branch, the legislative branch, and private organizations and individuals to restructure and devolve public housing. Not until MTW, however, did any of these proposals result in legislation that permitted some amount of devolution to occur—albeit on a small, experimental, scale. Since then, additional reform legislation has been enacted allowing for increased variation across HAs, but MTW was the first effort to demonstrate both the process and consequences of broader-scale deregulation. Hence, although by no means a perfect demonstration in terms of design or implementation, it is important to learn as much as possible from this experience in order to inform what will surely be a continuing debate about the desirability of additional deregulation of the Public Housing and Section 8 programs.

As will be described in this report, MTW deregulation opportunities have highlighted significant differences in HA philosophies, interests, priorities, and activities—as well as experiences. A portion of the demonstration participants experimented with significant procedural or policy changes, while others had more limited objectives. In either case, the demonstration has spawned some interesting program and administrative variations that are relevant to ongoing policy discussion about the shape of the nation's low-income housing assistance policies. Also of interest is the fact that, while some of the policy, program, or administrative actions considered to be part of a HA's MTW initiative required waivers of federal statutes or regulations, others were possible *without* such waivers—i.e., they were allowable under standard rules. In the latter case, it appears as if MTW designation, not the authority to waive particular rules, motivated new strategic thinking and direction on the part of HAs. This also is an important part of the MTW story that will be discussed in this report.

What is the Status of the Demonstration?

Established by the Congress in 1996, MTW was initially intended to take place over a three-year period. For many participating HAs, however, actual implementation did not begin until 1999 or 2000, following both lengthy negotiations with HUD over the precise terms of the waivers that would apply to each, and a complex, due-diligence-review by HUD of every waiver to assess its impact on other, non-revocable federal interests—such as those involving fair housing or labor law. During this period, HUD also had to devise a new system for establishing payment levels for those HAs opting to merge HUD funding payments under MTW.

Since that time, MTW has been extended for from five to seven years for some of these HAs.[2] In addition, although this was not anticipated when the demonstration began, several

[2] Officials of at least one HA have asked HUD to extend their participation in the demonstration to 10 years.

new HAs have recently been, and are still being enrolled in MTW—some of which are significantly different in size and performance histories than the first cohort of MTW participants.[3] As of late-2003, therefore, the demonstration continues to be in operation, at one stage or another, for different HAs.

What are the Limitations of the Demonstration?

MTW is not a traditional *programmatic* initiative involving uniform, nationally established program objectives or requirements. Each participating HA negotiated its own unique package of rule waivers with HUD and, consequently, each local MTW initiative contains a variety of distinctive program, policy, or administrative elements. The intention was to allow for, and test, various alternatives—as opposed to experimenting with a particular alternative. As will be discussed in more detail in Chapters 2 and 8, aspects of the demonstration's design, implementation, and timing have limited what participating HAs have been able or willing to do under it, as well as what can be learned from what they have done.

A number of considerations constrained HA initiatives under the demonstration. For one thing, MTW required a return to regular federal rules following the conclusion of the demonstration. Because little consideration was given to how HAs would transition back to standard rules, some HA officials were extremely cautious about what and how much change to initiate under MTW, thus restricting the nature and extent of administrative and policy experimentation they were willing to undertake. Also, some participating HAs opted to merge the different types of funding assistance they received from HUD so that the monies could be used for purposes other than that which is mandated by each separate funding program. Under the terms of the demonstration, however, these HAs were obligated to use their federal funds to serve essentially the same total number and mix (by family size) of households as would have been assisted in the absence of MTW, thereby limiting the extent to which funding flexibility could be applied and precluding a test of the effects of deregulation on the number and mix of households served—a crucial issue in the policy debate over deregulation.

MTW was not designed with a research plan in mind. HAs were not selected randomly or in a fashion that facilitates comparison with non-selected HAs, and controls were not established to separate MTW-specific activities, policies, or strategies—one from another, or from those not involving waivers of federal requirements. It is virtually impossible, therefore, to untangle the impacts of any particular portion of a HA's MTW initiative from any other portion. Moreover, the demonstration was initially implemented at about the same time that major public

[3] These HAs are Atlanta, GA, Chicago, IL, King County, WA, New Haven, CT, Oakland, CA, Philadelphia, PA, Pittsburgh, PA, and Washington, DC.

housing reform and welfare reform legislation was enacted. Consequently, the effects of each of these legislative changes on HAs and their residents are difficult or impossible to separate from the effects of MTW. Finally, an additional assessment challenge arises from the fact that demographic information about HA residents, such as their incomes and sources of income—key outcome measures normally available for the Public Housing and Section 8 programs—have not been available in a standard and consistent format for MTW HAs. Collectively, the above factors make the assessment of MTW particularly challenging.

What can be Learned at this Stage?

Despite the fact that MTW cannot be considered a prototype of what a fully deregulated Public Housing or Section 8 program might look like, and the fact that there are significant limitations on evaluating its outcomes, MTW provides a unique laboratory foreshadowing some of what might happen if HAs were provided further deregulation opportunities.

As part of the bill establishing MTW, the Congress required HUD to complete a “final” report on the demonstration following the end of its third year. This report is responsive to that mandate. It examines what HAs set out to do, what they did, why they did it and, preliminarily, what resulted. Also, since the design and implementation limitations of MTW are themselves important to any discussion regarding further deregulation of the Public Housing and Section 8 programs, this report considers some of the lessons learned in fashioning the demonstration. The extension of the demonstration beyond three years, however, and the lack of information regarding new HA additions to it, mean that the complete story of MTW cannot be told at the end of its third implementation year. *De facto,* therefore, this report is an account of an ongoing demonstration rather than a final and conclusive report. It incorporates and updates baseline information on the demonstration reported earlier by the Urban Institute,[4] and assesses the demonstration’s experiences through September 2003.

What is in the Remainder of this Report?

The next chapter summarizes the larger policy context in which the MTW demonstration came into being in the mid-1990s, its legislative history and authority, and the demonstration process. Absent an understanding of this background, and going strictly by the title of the demonstration, it would be easy to misconstrue MTW’s purposes and gist. This is followed, in Chapter 3, by a brief review of the assessment history of MTW, and the methodology employed

---

[4] Martin D. Abravanel, Margery Austin Turner, and Robin Ross Smith, *Housing Agency Responses to Federal Deregulation: A Baseline Report on HUD’s Moving to Work Demonstration*, The Urban Institute, 2000.

in this report and, in Chapter 4, by a description of the participating agencies and the kinds of initiatives undertaken under the auspices of MTW. Although the approaches that HAs have taken to implementing MTW differ significantly from site to site, some types of changes emerge as important for multiple agencies—and highly relevant to ongoing policy discussions about the shape of federal housing assistance. Three chapters cover these categories of changes: Chapter 5 deals with funding fungibility; Chapter 6 deals with tenant subsidy formulas, rent rule policies, and time limits on the assistance provided; and Chapter 7 deals with various types of administrative changes. The report concludes, in Chapter 8, with a review of key lessons suggested by the MTW experience to date, and consideration of their relevance to the larger housing policy debate about the funding, terms, and management of federal housing assistance.

Chapter 2

THE POLICY CONTEXT

As summarized in the Urban Institute's baseline report,[5] several changes in philosophy and national policy have been occurring over the course of the last decade that are affecting both the residents and agencies involved with HUD's public housing and Section 8 programs. Understanding these changes helps to place the MTW demonstration into context. They include:

- A gradual shift in sentiment among policy makers and housing practitioners in favor of adopting more market-oriented strategies for providing housing assistance, including project-based budgeting and asset management, especially in light of the serious program and funding challenges that have been facing the nation's public housing providers in recent years;

- A continuing and apparently growing interest among policy makers and housing practitioners in finding ways to further deregulate and devolve federal housing programs so that they become more attuned to the significant variations in conditions and circumstances that exist across local housing markets; and

- The extensive overhaul of the nation's welfare system during the 1990s that emphasized welfare-term limitations and the need to obtain employment—an especially significant occurrence to the extent to which there is an overlap in beneficiaries between the nation's welfare and housing assistance programs.

Because these changes provide the policy context in which the MTW demonstration was conceived in the mid-1990s, and in which it can best be understood, they are discussed in more detail below.

---

[5] *Ibid*.

The Evolution of the Public Housing Program

Started as a depression-era program intended to contribute to economic recovery, slum elimination, and the provision of safe, decent low-cost housing, the purpose and administration of public housing has evolved over its more than six-decade history.[6] One constant throughout the entire period, however, is that such housing was neither intended to be built or operated to private-market standards,[7] nor to be controlled independently by local entities. While public housing properties are developed, owned, and managed by state-chartered public agencies, the federal government heavily subsidizes their production, operation, and renovation. Federal support is intended to make up the difference between program expenses and the income HAs take in from tenant-paid rents. In return for such support, the amount of that income, as well as most of the policies and procedures governing the public housing program, are subject to extensive federal regulation.

---

[6] Programmatically and administratively, public housing has changed considerably over time. For the first dozen or so years following enactment of the U.S. Housing Act of 1937, public housing tended to serve predominantly working class and "temporarily poor" families; rents charged to tenants generated the income needed by local HAs to pay their operating expenses. With the Housing Act of 1949, public housing began to serve as a relocation resource for those displaced by government activities; HAs were obligated to take whoever was displaced by urban redevelopment. Until then, public housing generally did not serve persons likely to be displaced by slum clearance activities. This, in addition to other program modifications, resulted in long-term changes in both the socio-economic and racial composition of public housing developments and, as well, the ability of agencies managing such developments to cover rising operating costs with rental income. During the 1950s and '60s, large, high-rise projects built in a number of cities were neither well designed nor well located for family occupancy. Also, unemployment, racial and social tensions, increasing crime, and deteriorating neighborhoods severely undermined the viability of a good portion of large-city public housing. The Housing Act of 1969 lessened some of the financial burden on tenants in public housing by limiting the amount of their income that they had to spend on rent, while often contributing, in turn, to shortfalls in HA revenues. At about the same time, the federal government began to provide funds to HAs for the modernization of some of their public housing developments and, beginning in 1975, for their operation. Both modernization and operating subsidies grew rapidly over the next decades, with most HAs becoming heavily dependent on them. The Housing and Community Development Act of 1974 added administration of the tenant-based Section 8 program as a new function for HAs. In the 1980s and 90s, other new federal initiatives allowed HAs to compete nationally for funding for a variety of purposes, some of which involved housing development but some of which went well beyond the strict provision of rental housing. This added new money but, as well, new functions and administrative complexity to many HAs. Also, during this period, the Congress did not always appropriate the full level of funding projected by HUD's operating subsidy formula as needed for collectively operating the nation's 3,400 HAs—although, in some instances, supplemental appropriations were later made to partially or completely compensate for the shortfalls.

[7] With respect to its location, construction, amenities, and appearance, much of public housing was built without regard to market preferences or tastes. To some extent this had to do with cost, but it also was the consequence of historic opposition to the Public Housing program by private real estate, commercial, and financial interests. With the Housing Act of 1949, the Congress formally sought to eliminate any program competition with private-market housing and to focus the program on serving the very poor.

For reasons that include the program's non-market approach and the amount of federal regulation, public housing has always been controversial. Over the last two decades, though, the intensity of that controversy grew stronger. Throughout the 1980s, partisan disagreement over the program resulted in the construction of 5,000 or fewer new units per year, compared to about 600,000 units produced in the period between 1964 and 1974.[8] In addition, Reagan Administration proposals to demolish a certain portion of the existing public housing stock considered to be dysfunctional were countered by Congressional requirements that effectively prohibited demolition.[9] With respect to production or demolition, then, the result was a stalemate—although large amounts of money were appropriated and spent over this period to modernize an aging public housing stock.

By the early-1990s, however, there had developed a broader-based Congressional concern about the high financial costs, the adverse human costs, and the increasing public disapproval of maintaining and renovating a small but visible fraction of the public housing inventory—properties generally considered to be 'severely distressed.'[10] These were generally high-rise, family developments located in areas with heavy concentrations of low-income households and high levels of social and physical distress, but which stigmatized the entire Public Housing program. While, in fact, new funding was provided to begin to demolish and redevelop such distressed or obsolete developments, the negative sentiment was pervasive. Combined with an increasingly budget-conscious Congress, it was widely acknowledged throughout the decade that adequate federal funding for operating the 1.3-million-unit public housing inventory was no longer guaranteed. At the extreme, there was even the possibility that persistent proposals to privatize or even eliminate the Public Housing program could actually happen. Indeed, at the time, the federal agency responsible for administering the Public Housing program was itself under siege for this and unrelated reasons, and threatened with elimination.

---

[8] Rachel G. Bratt, "Public Housing," in William van Vliet-- (Ed.), *The Encyclopedia of Housing* (Thousand Oaks: Sage Publications, 1998), p. 443.

[9] For demolition to be approved, one-for-one replacement of the demolished units was required, with no federal funding provided to develop such replacement units.

[10] See, for example, National Commission on Severely Distressed Public Housing, *The Final Report*, Washington, D.C., U.S. Government Printing Office.

Interest in private-market standards. To attempt to preserve the resources and assets of public housing, some policy makers, program supporters, and local HA officials began to take seriously, among other solutions, developing more market-oriented strategies.[11] These were intended to allow public housing managers to compensate for past and anticipated future shortfalls in federal development and operating subsidies. The ability to serve a more mixed-income clientele, for example, was seen by some as a way to provide more economic and social benefits to residents and, at the same time, contribute to reduced management costs, service costs, and dependency on federal support. Strategic planning and asset management were seen by others as a means to reduce long-term costs, mirroring what is routine in the private sector housing market.[12] Such solutions were clearly a departure for public housing, however.

Interest in devolution. At the same time, local and national policy makers were considering seriously the value and efficacy of federal deregulation of the Public Housing program.[13] Within the domain of HUD-administered programs, this involved extending the federal devolution that had begun in the community development arena two decades before

---

[11] U.S. Department of Housing and Urban Development, *Reinvention Blueprint*, December 19, 1994, and *HUD Reinvention: From Blueprint to Action*, March 1995. The *Blueprint* called for a three-stage transformation of public housing consisting of: deregulation and program consolidation; the establishment of market-based rents with project-based assistance; and the establishment of market-based rents with tenant-based assistance.

[12] U. S. Department of Housing and Urban Development, *Public Housing in a Competitive Market: An Example of How It Would Fare*, April, 1996; U.S. Department of Housing and Urban Development, *Stock and Asset Management in Public Housing: Background Readings from HUD Repots,* August, 1996; Gregory A. Bryne, *Public Housing Asset Management: A Handbook for Local Governments, Co*mmunity Development Training Institute, October, 1996; and Martin D. Abravanel, Robin Ross Smith, and Margery Austin Turner, *Building Healthy Communities Through Federal Housing Policy*, The Urban Institute, July, 1998. In 1992, the George H. W. Bush Administration proposed several welfare reform programs to promote work, provide flexibility, and encourage innovation in federal public assistance programs. One of these was entitled the “Housing Assistance Innovation Act of 1992.” Similar in certain ways to the MTW demonstration later established in 1996, this proposal also provided for legislative and regulatory relief in a demonstration mode. It called for waiver authority for public housing agencies and resident management corporations so they could try new approaches to self-sufficiency and resident empowerment, and allowed waivers of Davis-Bacon wage requirements for residents of public housing or subsidized housing, and the homeless, for projects that improved the housing and communities in which they lived and that increased their ability to get jobs.

[13] Deregulation was also sought by executives of some local HAs, for a variety of reasons. Some of those who managed high performing HAs believed they were being constrained by limited federal resources and the inability to compensate for such constraints because of federal regulatory prohibitions. Many also believed HUD lacked the capacity to monitor HAs at the level of detail required by federal rules and, besides, that high performing HAs had shown their ability to make their own decisions without the need for such federal oversight. Also, some executives of poorly performing HAs attributed their difficulties to HUD regulation, believing they needed more flexibility and less regulation to be able to deal with their problems.

and, by the mid-1990s, had grown to cover other domestic program areas as well. Deregulation proposals that were being discussed at the time included: allowance for increased local control; establishment of locally defined goals and objectives to meet locally defined needs; imposition of fewer federal priorities; provision to HAs of block grants, rather than categorical grants and payments, with considerable discretion over their use; employment of outcome-oriented performance reviews as opposed to ongoing federal administrative oversight; and establishment of professional standards through a peer accreditation process in contrast to more traditional federal regulatory review.[14]

During the 1990s some HAs began to exercise enhanced discretion in areas related to admissions and occupancy, income and rent incentives, and rent setting.[15] In 1996, the Continuing Budget Resolution suspended mandatory federal preferences for admission to public housing that were based on hardship criteria, including homelessness. And, in 1998, the Quality Housing and Work Responsibility Act (QHWRA) made this and additional changes permanent in order to further deregulate HAs, provide more flexible use of federal assistance, and otherwise reform the Public Housing and Section 8 programs (See Exhibit 2.1).[16]

---

[14] *Evaluating Methods for Monitoring and Improving HUD-Assisted Housing Programs,* National Academy of Public Administration, December 2000.

[15] Deborah J. Devine, Lester Rubin and Robert W. Gray, *The Uses of Discretionary Authority in the Public Housing Program: A Baseline Inventory of Issues, Policy, and Practice*, Office of Policy Development and Research, U.S. Department of Housing and Urban Development, July 1999.

[16] Louise Hunt, Mary Schulhof, and Stephen Holmquist, *Summary of the Quality Housing and Work Responsibility Act of 1998 (Title V of P.L. 105-276)*, Office of Public and Indian Housing, U.S. Department of Housing and Urban Development, December 1998. The Act provides program-wide opportunity for greater local discretion with respect to selected policies and administrative aspects of these programs. QHWRA was intended to: reduce the concentration of poverty in public housing; protect access to housing assistance for the poorest families; support families making the transition from welfare to work; raise performance standards for public housing agencies, and reward high performance; transform the public housing stock through new policies and procedures for demolition and replacement and mixed-finance projects, and through authorizing the HOPE VI revitalization program; merge and reform the Section 8 certificate and voucher programs, and allow public housing agencies to implement a Section 8 homeownership program; and support HUD management reform efficiencies through deregulation and streamlining, and program consolidation. (See www.hud.gov/pih/legis/titlev.html.)

Exhibit 2.1 – The Quality Housing and Work Responsibility Act (QHWRA) of 1998: Summary of Statutory Changes to the Public Housing and Section 8 Programs

A number of HAs established policies under MTW authority that were not permitted under federal rules prior to enactment of QHWRA but that, shortly afterwards, became either permitted or required as a result of QHWRA. Key QWHRA-initiated program changes are as follows:

Subject	Description	Regulatory Citation	Program
Minimum Rents	All families receiving housing assistance under the Public Housing and Housing Choice Voucher (and Moderate Rehabilitation) programs must pay a minimum rent of between $0 and $50 (as established by the HA), unless the family is unable to pay the minimum rent because of financial hardship. In this instance, the family is exempt from paying the minimum rent.	24 CFR 5.630(a)	Public Housing Housing Choice Vouchers
Family Choice of Rent	Once a year, HAs must give a public housing resident the opportunity to choose between paying a flat rent or an income-based rent.	24 CFR 960.253(a)	Public Housing
Self-Sufficiency Initiatives	In some circumstances, HAs must disregard any increase in earned income of an adult public housing family member or a disabled adult Housing Choice Voucher family member for 12 months and disregard 50 percent of the increased earned income for an additional 12 months. The periods of disregard may be spread over 48 months.	24 CFR 960.255 and 24 CFR 5.617	Public Housing
Site Based Waiting Lists	HAs may establish site-based waiting lists for admissions to public housing developments and permit applicants to apply to the development in which they seek to reside.	24 CFR 903.7	Public Housing
Welfare Benefit Reductions and Family Income in Public Housing & Section 8	For housing choice voucher families and those public housing families paying income-based rent, if welfare benefit payments are reduced due to a sanction for non-compliance related to work requirements or other self-sufficiency requirements, the tenants' portion of rent to be paid cannot be reduced.	24 CFR 5.615	Public Housing and Housing Choice Vouchers
Flat Rents	HAs must develop a flat rent for each public housing unit based on rent charged for comparable units in the private rental market. The HA must consider location, quality, size, type, and age of unit, along with any amenities, housing services, maintenance and utilities provided when determining the flat rent. Reasonable methods must be used to determine the flat rent and the HA must develop and maintain documentation on how the flat rent was determined and what flat rents are offered to residents.	24 CFR 960.253(b)	Public Housing
Income-Based Rents	Tenants pay rent based on a percentage of family income and the HA's policies regarding rent. A tenant's income-based rent and utility allowance may not exceed the total tenant payment (TPP). If the utility allowance exceeds the TTP, the HA must pay that excess as a utility reimbursement.	24 CFR 960.253(c)	Public Housing

Subject	Description	Regulatory Citation	Program
Ceiling Rents	HAs with ceiling rents established prior to October 1, 1999 are permitted to use them for up to three years instead of establishing flat rents for those units. After a three-year period, ceiling rents are allowed as a cap on an income-based rent, but not as an alternative to flat rents.	24 CFR 960.253(d)	Public Housing
Merging the Certificate and Voucher Programs	The tenant-based certificate and voucher programs were merged into the Housing Choice Voucher program. The program has features previously authorized for the certificate and voucher programs, but also has some new features detailed in an Interim Rule published in the *Federal Register* on May 14, 1999, and a Final Rule published on October 21, 1999.	24 CFR 982	Housing Choice Vouchers
Individual Savings Accounts	As an alternative to the disallowance for increases in income resulting from employment, HAs may provide for individual savings accounts for public housing residents who pay an income-based rent.	24 CFR 960.255(d)	Public Housing

Enactment of welfare reform. Finally, this period also witnessed a sea change in the nation's welfare policy as the primary depression-era welfare program was reformed; this was viewed at the time as likely to have profound effects on the Public Housing program as well.[17] Many recipients of public housing also received Aid to Families with Dependent Children (AFDC), and that income, in turn, contributed to the rental income received by HAs.[18] Following a period of experimentation in which states were permitted to receive waivers of federal welfare rules, in order to make policy and procedural changes that better suited state circumstances

[17] See Terrence Connell, Deborah Devine, and Les Rubin, *Welfare Reform Impacts on the Public Housing Program: A Preliminary Forecast*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, March 1998; *Welfare Reform: Changes Will Further Shape the Roles of Housing Agencies and HUD*, U.S. General Accounting Office (GAO/RCED-98-148), June 1998; Sandra J. Newman (ed.), *The Home Front: Implications of Welfare Reform for Housing Policy* (Washington, DC: Urban Institute Press, 1999); and G. Thomas Kingsley, *Federal Housing Assistance and Welfare Reform: Uncharted Territory*, New Federalism Issues and Options for States (Washington, D.C., The Urban Institute, December 1997). While researchers and others attempted to predict the impact of welfare reform on public housing in the immediate aftermath of the enactment of TANF, estimates were not consistent and were generally considered to be problematic. See *Welfare Reform: Effect on HUD's Housing Subsidies Is Difficult to Estimate,* U.S. General Accounting Office (GAO/RCED-99-14) December 1998.

[18] G. Thomas Kingsley, "Understanding the Housing Assistance/Welfare Overlap," *Journal of Housing and Community Development*, September/October 2001, pp. 12-14. See also: U.S. Department of Housing and Urban Development, *Impacts of Welfare Reform on Recipients of Housing Assistance: Evidence From Indiana and Delaware*, February 2003; *Welfare Reform Impacts on the Public Housing Program: A Preliminary Forecast*," *ibid*; and G. Thomas Kingsley, "Federal Housing Assistance and Welfare Reform: Uncharted Territory," *New Federalism Issues and Options for States*, the Urban Institute, December 1997.

and interests, the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 was enacted. The new Temporary Assistance for Needy Families (TANF) Block Grant program, which replaced AFDC, gave states considerable authority to design their own welfare programs, and also emphasized time limits and a work-first approach to welfare.

Among other things, welfare reform heightened the need to assure the provision of services to public housing residents, especially those that could contribute to their economic self-sufficiency. Yet, from the very start of the Public Housing program in the late 1930s, there had been a running conflict between the housing and property management function of public housing and the service function—the provision of social supports to residents—which some believed to be beyond the "houser's" purview.[19] Notwithstanding various efforts to encourage HAs to develop programs that facilitated and supported resident self-sufficiency over the previous ten years,[20] this was never a true priority; besides, there continued to persist funding, coordination, and service delivery obstacles—as well as attitudinal obstacles—that hindered or limited such efforts.[21]

In sum, as a result of multiple challenges facing public housing by the mid-1990s, supporters saw themselves being squeezed on both ends, with no escape possible under the current rules. They considered the flow of needed tenant-paid rent to be potentially at jeopardy as a consequence of welfare reform, and the flow of HUD subsidies to be potentially at jeopardy as a consequence of declining Congressional support for the program and for HUD itself. Moreover, it was federal policy and regulatory requirements that prohibited local housing officials from lowering costs or increasing income in very substantial ways, and it was HUD—the only department of the federal government to have been designated "high-risk" by the U.S.

---

[19] Mary K. Nenno, *Ending the Stalemate: Moving Housing and Urban Development Into the Mainstream of America's Future* (Lanham: University Press of America, Inc., 1996), pp. 106-109.

[20] See *Project Self-Sufficiency: An Interim Report*, U. S. Department of Housing and Urban Development, Office of Policy Development and Research, Division of Policy Studies, 1987; *Project Self-Sufficiency: A Summary*, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, 1988; Anne B. Shlay, "Family Self-Sufficiency and Housing," *Housing Policy Debate*, Vol. 4, Issue 3, 1993, pp. 457-496; U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *Operation Bootstrap: Volume II: Outcomes of Participation,* 1994; and Amy S. Bogdon, "What Can We Learn from Previous Housing-Based Self-Sufficiency Programs?" in Newman (ed.), *The Home Front: Implications of Welfare Reform for Housing Policy, op. cit.,* pp. 149-174.

[21] See Sandra J. Newman and Ann B. Schnare, *Subsidizing Shelter: The Relationship Between Welfare and Housing Assistance*, (Washington, D.C.: The Urban Institute Press, 1988); and Sandra J. Newman and Ann B. Schnare, "Integrating Housing and Welfare Assistance," in Denise DiPasquale and Langley Keyes (eds.), *Building Foundations* (Philadelphia: University of Pennsylvania Press, 1990).

General Accounting Office (GAO)—that had the responsibility for regulating those agencies.[22] This, then, was the policy and organizational environment in which the MTW demonstration was proposed and enacted.

The Legislative History and Authority

Looking for a solution to the growing dilemma faced by HAs prior to the enactment of QHWRA, some program supporters lobbied the Congress for a massive deregulation of public housing. Their intention was to remove many Congressional and HUD requirements, substitute for them local choice and initiative, and provide funds as block grants to be used at the discretion of the HA. However, many of the most significant federal requirements that had been imposed on public housing over the years were the result of coalitions that had supported or protected various interests—interests that were unlikely to be given up without significant controversy. To open these issues to renewed debate would have been a major legislative undertaking.[23] Strategically, therefore, a faster and easier resolution was to propose a demonstration, and to use the Appropriations process—rather than the lengthier Authorizations legislative process—to create it. Still, supporters of deregulation intended that such a demonstration be done on a fairly large scale, permitting several hundred HAs to experiment with deregulation and block grant funding.

Clinton Administration officials at HUD, on the other hand, were neither enthusiastic about, nor especially supportive of, large-scale deregulation or block granting of public housing funds, believing that some federal regulation was essential to ensuring the achievement of major federal program objectives.[24] But, if proponents of deregulation were to prevail, these policy officials preferred to see it happen on a more limited, demonstration scale and, furthermore—given the welfare reform tide—to use the opportunity to experiment with new ways to promote and achieve the goal of resident self-sufficiency. The title "Moving to Work" was

---

[22] HUD received a department-wide designation as 'high-risk' by the GAO in 1994 because of serious deficiencies in internal controls, information and financial management systems, organizational structure, and department staffing; that designation continued through the decade. See U. S. General Accounting Office, *High-Risk Series: Department of Housing and Urban Development* (GAO/HR-95-11) February 1995, and (GAO/HR-97-12) February 1997, and *Performance Accountability Series: Major Challenges and Program Risks—Department of Housing and Urban Development* (GAO-03-103) January 2003.

[23] Legislation modifying key aspects of the Public Housing and Section 8 programs was ultimately enacted in 1998 as part of QHWRA. However, while QHWRA provides for some of the waivers of federal rules sought by MTW HAs, certain others, especially involving rent policy variations, are not allowed under QHWRA.

[24] Prominent among these federal objectives were the program's targeting to very low-income households, the assurance of housing affordability to very low-income households, and the prevention of racial discrimination and segregation.

proposed by the Administration as a means of emphasizing this self-sufficiency focus. Clearly, however, this was not the direction that was being advocated by deregulation proponents in response to the conflicting pressures HAs were under. They were not so much focused on resident self-sufficiency as on housing management, operations, and control issues.[25] In the end, the demonstration that resulted involved a compromise—a hybrid. In fact, it represented neither the first choice of deregulation proponents, on the one side, nor of the Administration, on the other.

Section 204 of the Omnibus Consolidated Recessions and Appropriations Act of 1996 authorized MTW.[26] Its compromise nature is reflected in the appropriations language, which states that the demonstration's purpose is "to give public housing agencies and the Secretary of Housing and Urban Development the flexibility to design and test various approaches for providing and administering housing assistance that:

- Reduces cost and achieves greater cost effectiveness in Federal expenditures;
- Gives incentives to families with children where the head of household is working, seeking work, or is preparing for work by participating in job training, educational programs, or programs that assist people to obtain employment and become economically self-sufficient; and
- Increases housing choices for low-income families."

As one means of achieving these purposes, the Act also specified that:

> . . an agency may combine operating assistance provided under section 9 of the United States Housing Act of 1937, modernization assistance provided under section 14 of such Act, and assistance provided under section 8 of such Act for the certificate and voucher programs.

Finally, the Act allowed for testing varied approaches, leaving the choice of which approach or combination of approaches to be tested up to each HA to decide.

---

[25] As a further means of de-emphasizing the 'moving to work' theme of the demonstration, the Seattle Housing Authority renamed it the "Moving To new Ways" Demonstration Program, maintaining the acronym MTW while removing the word 'work' from its title; the Cambridge Housing Authority renamed it the "MTW Deregulation Demonstration Program," accentuating its deregulation objective; and the Portland Housing Authority renamed it the "Hatfield Experiment" after former Senator Mark Hatfield—a supporter of the demonstration—removing the words "moving to work" and acronym "MTW" entirely, and emphasizing its experimental purpose. The cover of the Portland Housing Authority's application to HUD for participation in MTW consisted of a picture of a burning volume of the *Code of Federal Regulations*.

[26] Pub. L. 104-134, 110 Stat. 1321, enacted on April 26, 1996.

That the demonstration emerged from the Congressional appropriations process, and not the authorizations route, appears to have facilitated enactment of the initiative without fully resolving certain fundamental differences among interests. And, the abbreviated legislative language in the appropriations bill left considerable room for interpretation as to how the demonstration should be implemented.

Up to 30 HAs administering the Public and Indian Housing program or the Section 8 Housing Assistance Payments program—that had been performing well[27] under HUD's Public Housing Management Assessment Program (PHMAP)[28]—were permitted to participate in the demonstration. Potential applicants were required to provide for citizen participation through a public hearing or other means prior to submitting an application. As indicated above, the Act permitted interested HAs to request waivers of federal statutes and rules; such waivers could, but need not, include a request to combine federal operating subsidies, modernization grants, and Section 8 program funds—providing for greater local discretion as to how the combined funding pool could be expended.

The primary stipulations were that: (a) HUD funds be used to provide housing assistance or services to facilitate the transition to work; (b) at least 75 percent of the families assisted be very low-income; (c) HAs continue to assist substantially the same total number of eligible low-income families, and mix of household sizes, as they otherwise would have served, and (d) assisted housing units meet housing quality standards established or approved by HUD.[29] Inclusion of these stipulations, particularly regarding the number and mix of households served, seriously constrained the type and scope of program changes that could be initiated by HAs choosing to combine funding assistance. Moreover, MTW could not waive restrictions

[27] Although MTW was initially envisioned as a demonstration for high-performing HAs, some executives of troubled or once-troubled HAs believe the waiver authority authorized under MTW to be a solution to their difficulties, allowing the restructuring of development and capital replacement funding. In fact, the Congress subsequently authorized the inclusion of several such HAs into the demonstration.

[28] Until replaced by the current Public Housing Assessment System (PHAS), PHMAP was used to assess HA performance, using standard criteria for all HAs. The criteria included seven statutory indicators and a maximum of five additional indicators, as deemed appropriate by HUD. HAs self-certified annually to HUD regarding their performance on the PHMAP indicators and HUD issued a score based on the self-certification. HAs were rated as either "high-performing," "standard," "troubled," or "mod-troubled" (troubled with respect to the modernization program).

[29] Participating HAs were required to: certify that at least 75 percent of the families assisted would be very low-income households at the time they entered the program; provide a comparable unit mix by family size; establish a reasonable rent policy to encourage employment and self-sufficiency; and ensure that assistance would go toward housing that met HUD's Housing Quality Standards (HQS). HAs were also required to comply with: Section 12 Davis-Bacon wage rates; Section 18 sale and demolition requirements; and other federal requirements, such as those that derive from the Americans with Disabilities and Fair Housing Acts.

beyond those covered in the U.S. Housing Act of 1937, as amended, which further constrained the scope of program changes possible under MTW.

The Demonstration Process

Applications to participate in MTW were invited by HUD through a *Federal Register* Notice dated December 18, 1996.[30] The Notice specified that up to 10 of the 30 possible HAs to be selected would be chosen through a separate competition under the Jobs-Plus initiative.[31] It also made clear that HUD funds used in the demonstration, whether combined or not, were generally not subject to statutory and regulatory requirements of the Public and Indian Housing and Section 8 programs. That is, HAs would have considerable flexibility beyond the restrictions of the U.S. Housing Act of 1937, as amended, to apply locally designed strategies and to determine how best to use program funds to provide housing and related services to low-income families.[32] As stated in the Notice:

> In keeping with the nature of MTW as a demonstration program, this notice does not attempt to create a new Federal program, to instruct HAs on how to use the increased flexibility that MTW allows, or to identify all of the potential obstacles that HAs might confront in attempting to exercise their new authority. On the contrary, HUD expects HAs to take the lead in

---

[30] Volume 61, Number 244, p. 66855. Other than that Notice, there are no formal regulations governing the demonstration.

[31] HUD implemented the Jobs-Plus Community Revitalization Initiative for Public Housing Families demonstration, in partnership with the Rockefeller Foundation and the Manpower Demonstration Research Corporation (MDRC), in six (not 10) HAs as a separate component of MTW. Its purpose was to develop locally based approaches to providing employment opportunities to residents of public housing developments — concentrating the provision of employment opportunities and related services on a high percentage of residents in each of the developments. Significant research efforts have been (and are being) conducted to identify and understand the most promising approaches to increasing employment among families in public housing. See James A. Riccio, "A Research Framework for Evaluating the *Jobs-Plus* Demonstration, A Saturation and Place-Based Employment Initiative for Public Housing Residents," paper presented at the annual research conference of the Association for Public Policy and Management in Washington, D.C. November 1997; Linda Kato, James Riccio, and Jennifer Dodge, *Building New Partnerships for Employment: Collaboration Among Agencies and Public Housing Residents in the Jobs-Plus Demonstration*, Manpower Demonstration Research Corporation, 2001; Linda Yuriko Kato, *Key Features of Mature Employment Programs in Seven Public Housing Communities,* Manpower Demonstration Research Corporation, 2003; Nandita Verma, *Lessons from Jobs-Plus About the Mobility of Public Housing Residents and Implications for Place-Based Initiatives,* Manpower Demonstration Research Corporation, 2003; as well as other reports by the MDRC on the Initiative.

[32] MTW HAs are able to seek exemption from most existing public housing and Section 8 program rules except for Section 18 (public housing demolition/disposition), Section 12 (labor standards), and fair housing requirements.

> meeting the opportunities and responsibilities presented by MTW to plan and implement innovative programs that effectively address locally identified needs.[33]

The idea was that, since MTW was meant to be a demonstration of the implications of deregulation, it was left to the individual HAs to identify the specific federal rules they believed to be problems. The Notice also stipulated, however, that the selected HAs would need to *request* waivers of such rules, and that those waivers would need to be *approved* by HUD before they could be applied. The wording of the Notice is as follows:

> . . . HUD assistance must be used by the HA for the purposes required by MTW on such terms and conditions as the HA proposes and HUD approves. Consequently, HUD may grant unprecedented authority to HAs under MTW to design and implement demonstration programs that have not been possible under the existing public and Indian housing program or the Section 8 certificate and voucher programs. HUD intends to be flexible and responsive to HA proposals in order to encourage creativity in program design. However, an HA will be authorized to combine assistance and to operate outside of the 1937 Housing Act (and regulations under it) only to the extent approved by HUD under an MTW plan.[34]

The requirement for HUD approval was intended to ensure that only provisions of the 1937 Act, as amended—as opposed to other federal rules—would be waived, and that requirements pertinent to monitoring and evaluating the impacts of deregulation—such as information submission requirements—would not be waived.

MTW was time limited, and the Notice indicated that participants would thereafter return to a course of business consistent with regular HUD regulations. The premise was that changes to be tested were strictly intended to demonstrate what could be done if rules were different, not to permanently alter a demonstration participant's policies or procedures. Absent subsequent legislative or regulatory change, therefore, experimental alternatives were expected to revert to their previous state when the demonstration ended.

The application process. Forty-three HAs submitted applications to participate in MTW in March 1997 and, later that year, after being evaluated and scored, 24 were selected to participate. Included were 20 city and county Public Housing Authorities (PHAs), two state agencies, one Indian Housing Authority (IHA), and one consortium consisting of five PHAs. Each application contained a proposal that outlined, in more or less detail, the kinds of activities, policy changes, or waivers the HA was looking for. While individual plans contained similarities across HAs, in fact each constituted a unique combination of actions, activities, policies, or

[33] Notice, *op. cit.*, p. 66857.

[34] *Ibid*, p. 66858.

procedures—many of which required waivers of federal rules but some of which did not. Across plans, the range in terms of number of components, extent of innovation, or degree of departure from existing programs and rules, was substantial.

The negotiation process. There then followed a protracted period (extending into early 2000 for some HAs) in which discussions and negotiations took place between each HA and HUD,[35] often also involving technical assistance contractors employed by HUD to assist HAs throughout the MTW demonstration period.[36] The purpose was to reach agreement on the precise terms of each participant's plan. Clearly, the negotiations process was neither a trivial exercise nor simply a formality, as it took a considerable amount time to work out the details and reach and sign agreements with all of the selected HAs.

The negotiations process proved difficult because it involved undoing a system of rules and administrative procedures governing the Public Housing and Section 8 programs that had been established over many years. Since this was a new undertaking, multiple offices within HUD reviewed the waiver proposals to assess their potential impacts on other federal laws and regulations not subject to waiver under the demonstration—such as fair housing law, labor law, and government-wide procurement regulations. Moreover, since each regulation or procedure had its own rationale (as well as support from established constituencies and interests either within or outside of HUD), there was sometimes resistance to their modification. Likewise, from a technical perspective, forms and systems used to administer the programs had all been designed to discourage or prevent non-standard or non-regular practice; allowing for variations required having to work out the details of how to permit these to occur. Some of the most complicated negotiations and systems revisions concerned waivers that had an impact on HA funding levels, requiring HUD to develop a new and separate funding methodology and procedures for those MTW HAs that chose to merge multiple sources of funding assistance.

Throughout this process, HA officials looked for assurance that the waivers and funding levels they were to receive would stand up in what was then believed to be a fluid legislative environment, and HUD officials looked for assurance that the waivers that they granted and funding system that was devised would not result in untoward outcomes. As with any negotiations or rulemaking process, the objective was to reach a settlement that satisfied differing interests, which often was the case. However, that did not always happen. For various reasons, some HAs did not get all of what they had proposed. For example, those seeking to

---

[35] HUD's Office of the Assistant Secretary for Public and Indian Housing (PIH) has responsibility for the MTW demonstration. Initially, PIH's Office of Policy, Program, and Legislative Initiatives administered it; its Office of Public Housing Investments currently administers it.

[36] The 1997 and 1998 HUD Appropriations Acts each provided funds to be used for direct technical assistance to MTW HAs and for long-term assessment activities.

reduce their administrative burden by requesting relief from supplying HUD with certain kinds of information were denied that request if the information was considered by HUD to be essential for evaluating the outcomes of their MTW experience. Also, there were requests for waivers of rules not emanating from the 1937 Act or for actions not permitted by the Act establishing the MTW demonstration—such as that assisted housing units meet local code standards rather than housing quality standards established or approved by HUD. Complicating the negotiating process was the fact that several HAs modified their plans and requested waivers they had not originally proposed, in some instances after hearing from other MTW participants what they were seeking to do. Such exchanges took place in either one-on-one discussions or at a HUD-convened conference held for all MTW participants during that period.

The protracted negotiations period, in fact, contributed to a loss of momentum for some HAs and, for a few, a loss of strategic vision for the demonstration initiative. Also, as the negotiations process proceeded, several HAs chose to drop out of the demonstration, either before or after they had reached agreement with HUD as to the terms of their participation. For one thing, in the interim, the Congress had enacted QHWRA, which, as indicated above, provided opportunity for some amount of federal deregulation of public housing more generally.[37] Then again, a few HAs were disgruntled with HUD, either related to MTW or otherwise, or had changes of leadership and interests during this period. Also, very late in the process, the Congress permitted three named additional HAs to participate in the demonstration.[38]

By the end of the negotiation period and the start of MTW activities at many HAs—in the spring of 2000[39]—the demonstration consisted of 18 of the original 24 participants.[40] Each, by then, had signed a formal agreement with HUD stating the terms and limits of their participation in MTW. At this point, then, the demonstration officially commenced.

Conclusion

While MTW presented a unique opportunity to experiment with program flexibility, the demonstration's design and implementation included significant constraints on that flexibility as well as changed relationships between HUD and HAs. MTW allowed participating HAs to

---

[37] See Exhibit 1.1

[38] These HAs were: Charlotte, NC; Chicago, IL; and Pittsburgh, PA.

[39] Some HAs, however, had started their MTW activities as early as mid-1999.

[40] The following HAs had dropped out of the demonstration as of June 2000: Birmingham, AL; Cherokee Nation; Los Angeles County, CA; Stevens Point, WI; Tampa, FL; and a consortium of HAs consisting of Salt Lake City, Salt Lake County, Utah County, Davis County, Provo, and Ogden, UT.

experiment with 1937 Act rules but not other rules—such as those pertaining to public housing demolition/disposition, labor standards, and fair housing requirements. The waiver-through-approval process meant that each change a HA proposed to make had to be vetted individually at the front end and, as well, any proposed incremental changes resulting from ongoing experiences during the demonstration likewise needed HUD approval. The limited time duration of MTW meant that participating HAs needed to construct policies or procedures that could be undone at a future point. Stipulations on the number and types of families assisted by those HAs that took advantage of funding fungibility authority under MTW also limited the extent of program flexibility. Finally, the demonstration required establishing a different set of relationship between HUD and HAs than that which applied to the remainder of the nation's HAs. In particular, monitoring processes involving both HUD's Central Office and its field offices needed to be adjusted to accommodate individual variations in HA program or operational rules.

Chapter 3

ASSESSMENT BACKGROUND AND APPROACH

The existence of multiple demonstration objectives allowed some HAs to participate in MTW primarily to achieve greater institutional autonomy from HUD and federal controls generally, while allowing others to participate primarily to alter specific federal rules or policies believed to be impeding the accomplishment of local program objectives. Both interests motivated some HAs. Those focused on specific rules frequently, *but not exclusively*, were interested in policies or procedures thought to affect prospects for resident self-sufficiency. Another hallmark of MTW is that each HA has its own agenda, consisting of a unique combination of approaches to managing and providing housing assistance, and its own local objectives. Approaches and objectives are not necessarily consistent, either within or across HAs. Assessing MTW, therefore, presents something of a challenge.

The Challenge of Assessing MTW

Given the nature of the demonstration, its assessment could not be a traditional, top-down type of evaluation of either specific HA policies or actions, or of entire HAs, against legislatively defined objectives. While the Congress set forth several broad purposes for MTW, it was left to individual HAs to define *their own* objectives and the means by which they would be accomplished. The underlying hypothesis was that locally designed program variations regarding objectives or means—whatever they may be—are more effective and/or efficient in providing assistance than a nationally prescribed program and procedures. MTW, then, was meant to test that hypothesis.

To be able to judge whether a policy or procedural change implemented under MTW is more effective or efficient than one prescribed nationally requires clear outcome measures collected both before and after the change goes into effect. One of the barriers to collecting such information regarding MTW involves the very rationale for the creation of demonstration. Many of the HAs that applied to participate in MTW did so, in part, to reduce the level of federally mandated data collection and reporting normally required under the public housing and Section 8 programs. The imposition of additional data-collection requirements, even though for evaluation purposes, runs contrary to that purpose and, as such, to spirit of MTW.

So as to minimize the amount of new data collection, yet still be able to assess MTW, existing, available information was relied upon to the maximum extent possible. One of the limitations of using such information, of course, is that it may not be uniform and comparable across HAs, and may not always conform to an appropriate quality standard. For this reason, and because there is such variation in motivations, objectives, and activities across HAs, the demonstration does not lend itself well to cross-site comparisons. While case studies are an option under such circumstances, they are also not ideal in this instance. It is important to go beyond the unique characteristics and circumstances of each HA or community, which tend to be emphasized in case studies, to understand which variations in approaches to providing and administering housing assistance lead to the best results. The inherent challenge in assessing MTW, then, is to be able to collect information on the experimentation experiences of multiple HAs that take into account different settings and conditions and address important national housing policy questions, in ways that do not contradict or impede the deregulation interests of HAs.

Assessment Strategy

Since MTW does not consist of a uniform or delineated program, as such, and because it was not designed with evaluation criteria and controls built in, a standard, formal impact evaluation of MTW was not feasible or appropriate. Consequently, the assessment that was initially contemplated, as described in earlier reports, involved tracking both uniform (across all sites) and site-specific outcomes over time—especially with respect to tenants but also regarding HAs and communities—to see if they improved during the period of the demonstration as a result of locally initiated HA activities, policies, or strategies.[41] The ability to measure tenant-related outcomes, in particular, depended on having detailed, longitudinal demographic data for both MTW HAs and similarly situated non-MTW HAs—the latter for comparative

[41] The earlier assessment is described in: *Moving to Work Demonstration: Technical Assistance Services for Baseline Evaluation Monitoring and Evaluation Plan*, the Urban Institute and Aspen Systems Corporation, November 1998; and Martin D. Abravanel, Margery Austin Turner, and Robin Ross Smith, *Moving to Work: Monitoring and Evaluation*, the Urban Institute, November, 1998.

purposes. Such data, however, did not ultimately become available for the MTW HAs. That and other reasons necessitated a mid-course change in assessment strategy.[42]

The revised MTW assessment strategy involved, first, assembly of a comprehensive inventory of demonstration activities that had been contemplated, or were being undertaken, by all of the participating HAs. The purpose was to identify categorize the kinds and range of local policy and procedural variations considered to be significant by local HAs. Analysis of this inventory resulted in a grouping of HA initiatives into three broad clusters—each of which covered an assortment of policy or procedural activities. These clusters were separated for purposes of studying their rationale and implementation experiences. And, to the extent to which quantitative or qualitative information was available regarding the consequences or results of the activities involved within each cluster—intended or otherwise—that information was collected, examined for quality and consistency, and analyzed.

Each of the activity clusters is relevant to one aspect of another of general the general policy debate about federal housing assistance. They are as follows:

- *The funding of federal housing assistance.* Multiple HAs experimented with combining their federal operating subsidies, modernization grants, and Section 8 funding allocations into a merged, flexible funding stream. A sub-set of these HAs combined this funding flexibility with waiver authority under the demonstration to experiment with alternative development and financing arrangements in order to expand the stock of affordable housing within the community.

- *The terms of federal housing assistance*. Multiple HAs experimented with variations in tenant subsidy formulas, rent rules, and time limits. For example, several of them altered the standard percent-of-income approach to establish tenant rent contributions for public housing and Section 8 in order to encourage work and increased self-sufficiency, or established time limits on receipt of housing assistance in order to encourage work and assist more eligible households within the community.

- *The management of federal housing assistance.* Multiple HAs experimented with administrative streamlining, eliminating or simplifying certain HUD-mandated procedures or reports, in order to reduce costs and operational complexity.

[42] Revision was necessary for two, unrelated reasons. The first had to do with the feasibility of the original strategy given the unavailability of data from HUD's Multifamily Tenant Characteristics System (MTCS), which was originally anticipated to be available throughout the demonstration but ultimately did not become available. The second had to do with the appropriateness of the original strategy given changes made to the demonstration's duration.

Data-Collection Procedures

Primary data collection occurred during field visits and conference calls to MTW HAs over the course of the demonstration and at the end of its third year. During the demonstration, HUD's MTW technical assistance contractors made annual visits to each HA and used data collection protocols designed by the Urban Institute to collect information. At the end of the third year of the demonstration, Urban Institute staff visited 13[43] of the 18 original cohort MTW HAs, and conducted telephone interviews with officials at the five remaining HAs.[44] Some of the site visits focused on only one of the above activity clusters, while others covered multiple clusters—depending on the frequency and variety of activities undertaken by the HA. For example, many HAs implemented with rent rule policies, although the type of policy varied significantly from place to place. On the other hand, only a few HAs used MTW to make changes to their capital stock. Consequently, more HAs provided information on rent rule policies than on housing stock changes.[45]

Field visits ranged from two to four days, and included discussions with various HA officials and personnel—spanning seniority levels, program functions, and perspectives. In many HAs, tenant leaders were contacted and, in HAs where MTW changes directly touched individual residents (particularly those with rent rule changes), focus groups and/or discussions were held with assisted households. Where appropriate, persons and organizations outside of the HA with knowledge of MTW were also contacted, including staff of other public agencies (such as those administering the TANF program) as well as non-government and nonprofit groups.

As part of the assessment of the results or consequences of MTW-motivated funding, policy, and management activities, officials and staff members at each HA (as well as others who contacted for the study) were asked to provide the strongest outcome evidence they could cite showing what MTW had accomplished or was in the process of accomplishing in their communities. With respect to impacts on tenant movement toward self-sufficiency, much of the

[43] Field visits were made to the following HAs: Cambridge, MA; State of Delaware; Keene, NH; Lawrence, KS; Lincoln, NE; Louisville, KY; State of Massachusetts; Portage County, OH; Portland, OR; San Diego, CA; Seattle, WA; Tulare County, CA; and Vancouver, WA.

[44] Telephone interviews were conducted with officials of HAs that are either involved in either a limited initiative under MTW or for which a significant amount of assessment information had been collected by HUD's MTW technical assistance contractors through field visits. These are: Greene County, OH; Minneapolis, MN; San Antonio, TX; and San Mateo County, CA.

[45] HAs that using MTW to for capital stock purposes are doing so in conjunction with the funding fungibility authority they have under MTW. Discussion of capital stock issues, therefore, is included in Chapter 5, which deals with funding fungibility.

evidence draws on the informed opinions of HA personnel rather than on independent analysis of data from a standardized data system. This is because of the unavailability of Multifamily Tenant Characteristics System (MTCS) data for MTW HAs. However, in some instances, HA officials based their responses on data they routinely collect on the demographic characteristics of their tenants.[46]

[46] Although HAs generally maintain internal systems that include tenant characteristics data, the quality and accessibility of these systems are different from HA to HA. In some cases, the information is retained in hard-copy format while, in others, it is maintained in an automated format. In the absence submission of such information to a standardized, automated system, such as MTCS, data definitions and maintenance are inconsistent across HAs and, therefore, are not easily used for cross-site comparisons or analysis.

Chapter 4
MTW AGENCIES AND INITIATIVES

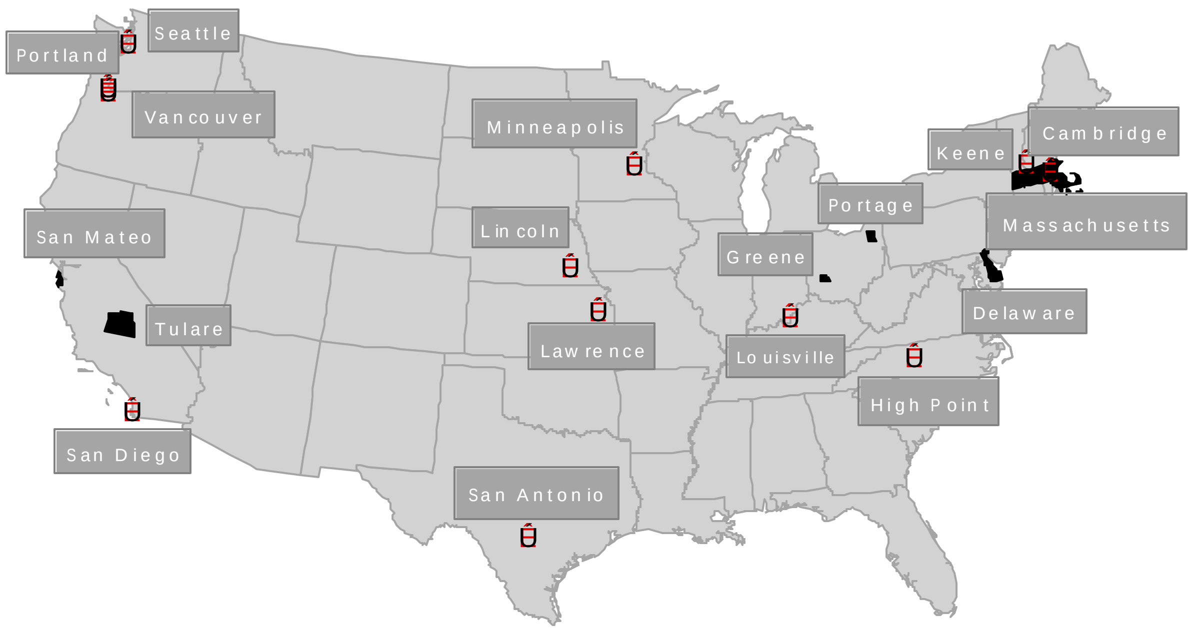
MTW takes shape at the local level. The package of policy and procedural activities constituting MTW at each HA is unique, reflecting differing HA inclinations, capabilities, and philosophies as well as housing market conditions and political environments respecting the provision of housing assistance. Not only do local MTW initiatives differ across sites with respect to motivations to participate, objectives, and activities, but the style and pace of implementation also varies widely. This chapter describes the various local initiatives, considers the factors that shaped them, and discusses initial implementation and subsequent modifications of the initiatives.

Overview of MTW HAs

Of the original cohort of MTW HAs, the 18 that remained as of September 2003 span the country and include city, county, and state agencies—reflecting the variety of HAs that administer public housing and Section 8 programs across the nation. All, however, were considered to be high performers according to the HUD assessment system that was in place at the time of acceptance into MTW (see Exhibit 4.1). The agencies range in program size as well as program mix. The Massachusetts HA, for example, administered 16,498 units of Section 8 statewide in the year 2000 (183 of which were part of the MTW demonstration), but does not manage public housing properties. The remaining HAs administered both the Public Housing and Section 8 programs, in different proportions. The largest is Portland, OR (14,425 total units) and the smallest is Keene, NH, (602 total units) (see Exhibit 4.2).

The scope of MTW-motivated activities varied from site to site. Two-thirds of the 18 HAs made what can be characterized as ‘systemic’ changes to their programs and operations, meaning they altered basic HA practices and systems that affected whole classes of residents or operations. Among the systemic sites, however, there is considerable variation with respect to the scale and scope of changes undertaken. Some of them implemented relatively modest, or incremental changes to program rules or procedures, while others launched programs that altered basic mechanisms for subsidizing properties or assisting households. One-half of these sites also altered their funding arrangements in a way that allowed for increased fungibility, as will be discussed in Chapter 5.

Exhibit 4.1: Locations of the Original Cohort of MTW HAs



The remaining HAs are labeled 'non-systemic' because they made changes that affected only a small number of households or only parts of their programs or operations, without fundamentally altering the HA system overall. While some of these non-systemic sites made quite innovative changes, especially when compared to the pre-QWHRA period, their impacts, nevertheless, tended to be limited to a sub-set of households, without significantly changing the profile of their assisted housing stock or resident population.

Exhibit 4.2: MTW HAs, by Size and Assessment Category

Participating HA	Size of HA			Category
	Total Number of Housing Units *	Percent Public Housing Units	Percent Section 8 Units	
Cambridge, Massachusetts	3,711	52	48	Systemic, Funding Fungibility
Delaware State	918	41	59	
Louisville, Kentucky**	5,362	87	13	
Portland, Oregon	14,426	19	81	
Seattle, Washington	12,036	54	46	
Vancouver, Washington	2,002	29	71	
High Point, North Carolina	2,364	50	50	Other Systemic
Keene, New Hampshire	602	38	62	
Lawrence, Kansas	806	45	55	
Lincoln, Nebraska	3,099	10	90	
Portage County, Ohio	1,326	23	77	
Tulare County, California	3,499	20	80	
Greene County, Ohio	1,691/100***	21	79	Non-systemic
Massachusetts State	16,498/183***	0	100	
Minneapolis, Minnesota	10,457/50***	58	42	
San Antonio, Texas	18,017/660***	36	64	
San Diego, California	10,031/72***	14	86	
San Mateo County, California	3,744/300***	4	96	

*Number of federally sponsored Public Housing units and Section 8 vouchers as of 2000. Source: U.S. Department of Housing and Urban Development, Office of Public and Indian Housing.

**Units for Louisville (City) prior to the merger of the City and County HAs.

***For non-systemic MTW HAs, the first figure is the total number of federally sponsored public housing units under management and Section 8 units administered by the HA; the second figure is the HA's original goal for the number of units/households to be enrolled in its MTW program.

HAs in all three of these categories (systemic funding fungibility, other systemic, and non-systemic) experimented with a wide variety of changes. A catalogue of the activities HAs proposed, those they were approved to implement, and changes implemented, can be found in Appendix B.[47] The scale and breadth of changes is typically greatest in the 'systemic funding fungibility' category and more limited in the 'non-systemic' category. However, some of the 'other systemic sites' implemented a large number of changes, and several of the 'non-systemic' sites made changes that cut across multiple programmatic or administrative areas or created demonstration programs with lessons relevant to housing assistance more generally.

Chapters 4 though 8 draw on specific examples from individual HAs to illustrate important themes, features, and lessons that are emerging from MTW, and Appendix B demonstrates the volume, variety and magnitude of proposed and implemented programmatic activities under MTW.[48] To better understand how the MTW demonstration is conceived at individual HAs, however, a short summary of what is taking place at each HA is provided in Appendix A.

Factors Shaping MTW Approaches

As the site-activity summaries make clear, MTW is a self-defining demonstration. Within broad federal limits and with HUD's concurrence, each participating HA defined its own agenda. The package of activities undertaken in each, therefore, is somewhat unique. Moreover, the goals each HA hoped to further differed one from another. Even HAs that engaged in similar activities may have done so for different purposes. Conversely, HAs with similar goals may have engaged different program changes to achieve those goals. For example, the Portage and Keene HAs both adopted new rent rules, but the Portage HA hoped to increase turnover while the Keene HA hoped to decrease turnover. The Tulare and San Mateo HAs implemented time limits on housing assistance in order to serve more people. The Lincoln HA deliberately did not implement time limits because officials there believed that even a household with two working adults could work fulltime and still not satisfy private-market rent requirements.

Bounded by the terms of the demonstration and HUD's implementation rules, then, MTW permitted HAs to develop packages of changes that reflected local conditions and

---

[47] Almost all HAs are experimenting with changes in occupancy and rent rules, while only a few are changing the ownership and/or financing of their housing developments. The scale and diversity of changes being implemented by almost every HA makes it extremely difficult to categorize the participating agencies or to arrive at a meaningful typology of local programs. The appended activity chart catalogue details the myriad possibilities.

[48] Summaries of site programs include major components of local activities that HAs deem part of their MTW program. These components could include elements that are permitted under QHWRA. See Exhibit 1.1 for a presentation of statutory changes to the Public Housing and Section 8 programs.

circumstances—taking into account their own markets, cultures, interests, and philosophies about housing assistance. In fact, the packages that were developed were shaped by factors that were both external and internal to each participating HA.

External factors: housing market conditions. Some HA initiatives were shaped in large part by market conditions. For example, a very tight housing market and dwindling stock of affordable rental housing in Cambridge lead HA officials there to use MTW opportunities to increase the proportion of project-based, relative to tenant-based, housing assistance to secure affordable units. Likewise, a shortage of three-plus bedroom units and a waiting list containing families needing such units motivated Seattle HA officials to use MTW opportunities to acquire buildings containing larger units and project-base some of their tenant-based assistance in those properties to ensure their viability. A very competitive affordable housing market, reflected in a long waiting list for assistance, prompted Tulare HA officials to use MTW to put time limits on assistance to make it available to a larger number of people. A relatively soft housing market encouraged Lincoln HA officials to focus their MTW efforts on rent policy changes that would make the program more understandable and equitable, rather than addressing a stock shortage. And, particularly depressed conditions in certain neighborhoods led San Antonio HA officials to target MTW rent incentives to two of its developments, to attempt to attract working families and improve development quality in those areas.

External factors: local political environments and cultures. MTW initiatives responded to locally accepted normative judgments regarding the provision of housing assistance. The goals HAs hoped to further through policy or procedural changes reflected such values, and these often served to direct and constrain what was attempted under MTW. For instance, new rental policies by the Lincoln HA were greeted with little opposition, according to officials there, because they reflected the local view that able-bodied people should work. In Tulare, the potentially controversial issue of time limits was met with little fanfare by a local community seemingly uninterested in the affairs of the HA. Moreover, the conservative community was receptive to rent changes meant to promote employment and accountability. At the other end of the spectrum, an expectation of local community involvement meant that the Seattle HA's pre-demonstration plan was deliberately vague, with more concrete policy changes coming only after extensive public meetings were held during the demonstration period to vet new ideas.

Internal factors. The development of MTW plans also reflected the program experiences of local HA officials—including their prior familiarity with the idea of deregulation and their preparedness to make program changes when MTW was first announced. Some HA officials had been lobbying for deregulation for some time before MTW was initiated and, therefore, had something of a head start over others when it came to thinking about what they would do with such an opportunity. HA executives in Seattle, Portland, and Cambridge, for example, had been at the forefront of efforts to develop a demonstration like MTW, and staff members at each of these HAs had been considering what changes would benefit their agencies. Other HAs had been planning or piloting programs (such as a homeownership program in Minneapolis or ROADS employment and training centers in San Antonio) prior to MTW that could be enacted, extended, or expanded through the use of MTW waivers. At still other HAs, frustrations with the inadequacies of current systems prompted staff to contemplate different ways of doing business. The Tulare HA's Executive Director had a long-standing aversion to percentage-of-income rental programs long before MTW. These types of experiences meant that, when the time came to submit MTW applications to HUD, such HAs were poised and ready to go.

Initial Implementation of MTW Initiatives

At the application stage of MTW, all of the HAs that submitted proposals were enthusiastic about the flexibility MTW appeared to offer them, and were especially eager to participate. Indeed, as mentioned above, several had been lobbying for regulatory relief or reform for some time. All of the participants also had quite clear ideas about why the demonstration was needed and how they intended to use it, although those ideas differed considerably across HAs. Some HA officials were particularly sensitive to the pressures welfare reform was creating for residents, and wanted to focus their programs much more explicitly toward work and self-sufficiency goals than they had previously done. Among these were executives of several HAs who believed federal housing assistance should be time-limited. Others anticipated that federal funding for public housing would not be sustained over the long-term, and wanted the flexibility to prepare for "the end of public housing as we know it." Still others were intensely frustrated by what they perceived as a mismatch between existing federal programs and rules, and local concerns, housing market conditions, and needs; they were eager to reallocate resources to better assist the populations they served. And, finally, some were motivated by long-standing frustrations with procedural and reporting requirements, which they considered to be burdensome, unnecessary, or unproductive. All of these factors influenced HAs when developing their packages of MTW activities.

While officials of all of the participating HAs were eager to launch their MTW efforts, the style and pace of implementation differed widely from site to site, and also reflected local expectations, markets, and environments. For example, Cambridge officials were ready to implement technical changes as soon as HUD gave them approval. On the other hand, Seattle's approach to community collaboration, involving holding extensive public meetings, meant a more staged implementation. Lincoln set a very short, 30-day internal deadline from the time of HUD approval to local launch of MTW, while other HAs needed more time to develop new forms and procedures. The Louisville HA's start was delayed by a series of noteworthy institutional changes. After receiving their MTW designation, they experienced significant executive level staff change (including, but not limited to, the loss of their executive director) and the merger of local city and county governments, including the subsequent merger of the city and county HAs. Locally, the urgency associated with rapidly implementing MTW paled in comparison to the magnitude of other events that slowed the process, practically bringing it to a halt.

HAs organized their staff in different ways to implement their MTW initiative. In all HAs, program change meant familiarizing staff with new rules and procedures and educating residents on new program rules. Tulare HA staff used their annual recertification sessions to explain the new program to residents and, in some cases, show them what they could save in rent by switching to a flat-rent system. Lincoln HA staff used the opportunity to create a new briefing for potential participants, including an informational video.

To implement MTW, some HAs reorganized staff plus changed staff responsibilities and duties. Prior to MTW, Keene HA officials found that the separation of managerial and social service functions caused conflict when the interests of the two sets of managers diverged. To reduce such conflict, they used the change process of MTW to consolidate managerial and social service functions into one position. As a result, managers began taking the Resident Self-Reliance component more seriously, and used their role as counselors to decrease managerial problems, such as lease violations. Section 8 and Public Housing staffs were also merged, creating one set of staff for intake and occupancy and one for management. While MTW was not required for staff reorganization, implementing the program highlighted the need—and created a window of opportunity.

The changes HAs made under their MTW plans prompted not only staff reorganization in a few places but, also, staff hires in some cases. While brainstorming a package of changes, Lawrence HA officials merged their Public Housing and Section 8 waiting lists. Staff believed the separation of waiting lists was confusing for recipients, and required too many staff doing the same job (two applications specialists, one for Public Housing and one for Section 8). The merger and reorganization allowed them to hire another inspector, a recertification specialist, and to dedicate one staff person completely to applications.

Staffing changes at the Lawrence HA that resulted from a merger of waiting lists demonstrate how thinking creatively as part of MTW contributed to broader program changes. Even though the waiting-list merger was possible without MTW waivers, it was the MTW planning process that prompted staff to think of a better way to do business. Officials at other HAs have had similar experiences. According to the Executive Director of the Keene HA, for example, the higher level of independence provided by MTW forces a HA to constantly evaluate its programs and adjust to changing needs. He believes staff members are more involved in program development and more vested in the outcomes. Increased autonomy also forces them to justify the rationale for their programs whereas, before, they could defer to federal regulation.

Subsequent Modifications of MTW Initiatives

The years during which HAs implemented their MTW initiatives were marked by major contextual changes in some communities. Examples are large-scale demolitions of HA-owned properties, major property renovations, organizational mergers, significant HA staffing changes, and other developments that, in some instances, dramatically altered the housing assistance landscape compared to the period prior to MTW.[49] This was also a time of significant economic change nationally, which especially affected some communities and regions where MTW was underway. Rapid shifts in employment and real estate markets clearly had an impact on the way the MTW initiative progressed, as well as did HA experiences in response to their MTW-inspired policies or procedures.

The effect of contextual changes. While MTW HAs crafted a set of changes to address their local needs, fluctuating conditions sometimes made it difficult to achieve desired outcomes. Minneapolis officials, for example, designed a homeownership program under the assumption that the market was soft, which it was at the time. They set purchase-price limitations accordingly. An upturn in the market, however, rendered the program ineffective. Participants were unable to find houses for purchase given the price limitations, and this delayed early efforts by the HA.

For others, initial assumptions about market conditions and other external factors proved false. San Antonio’s effort to attract working families to depressed neighborhoods, for example, was stymied because families were unwilling to move to the targeted developments. With the highest rents in Kansas, officials of the Lawrence HA wanted to expand voucher resources and bolster local neighborhoods by generating money through renting units to moderate-income households at affordable market rates. HA officials believed their units were of higher quality than what the local market provided for at the same price. Unfortunately, their hopes for the local market did not come to pass, and they were not able to attract moderate-income households to rent units in public housing developments.

[49] MTW occurred concurrently with receipt of HOPE VI in some communities and, as previously indicated, at the same time as implementation of welfare reform and QWHRA.

The effect of MTW experience. In some MTW HAs, local experience and assessment led to mid-course corrections in MTW initiatives.[50] Officials of many MTW HAs believed their initiatives were constantly evolving, so they changed their policies over time depending on results, feasibility, and the developing needs of their participants. These changes were usually incremental, however, and did not involve large overhauls of entire systems. The Lawrence HA, for example, instituted a work requirement, but is currently considering eliminating it due to the administrative burden caused by enforcement. In lieu of the requirement, they are contemplating raising the minimum rent to a level such that residents would only be able to meet the rent if they were meeting a work requirement.

While HA officials sometimes saw a need for improvements in their experiments, the time-limited nature of the demonstration and the laborious waiver-approval process stymied some local efforts to make incremental enhancements. Portage HA officials, for instance, sought to move residents toward self-sufficiency by offering a phased-in rent system. That system, however, prevented them from reaching their MTW goal of reducing administrative burden. Phased-in rents required recalculation and notification of rent changes in two-month intervals over five months, rather than the one adjustment required under the non-MTW system. Staff found their system to be significantly more time-consuming and burdensome, and hope to change it in the future if the program continued.

The effect of changed reporting requirements. In addition to the desire to fine-tune local programs, MTW reporting requirements encouraged development of local benchmarks. As a result, for example, staff of the Portage HA compiled annual reports on their MTW public housing population, which contained data on average monthly rents, zero incomes, average annual incomes, income from wages, and reasons for involuntary departure. Staff also tracked the number of MTW participants utilizing each of their MTW features, although Section 8 data are not tracked separately for the MTW population. In both the Public Housing and Section 8 programs, they conducted financial impact assessments of deductions from income. As another example, staff members of the Keene HA tracked the number of participants at each step, rent

[50] HUD made resources available to HAs that wished to conduct local evaluations of their initiatives. While officials of several HAs intended to access these resources, few actually took advantage of them. Notable exceptions are the Lincoln and San Diego HAs. Lincoln HA officials contracted with researchers from the University of Nebraska to conduct an evaluation of the minimum earned income (MEI) equivalent portion of their MTW program. They are conducting a mail survey of those persons whose rent is calculated using the MEI and in-person interviews with a portion of that group. Using a HUD Community Outreach Partnership Center (COPC) grant, San Diego HA officials partnered with San Diego State University to conduct an evaluation of their MTW participants living in their public housing units (22 households), and issued several reports. Recommendations stemming from a needs assessment suggested increased participation in youth and childcare programs, replacing an on-site referral worker with direct-service providers, improving and expanding on-site technology education programs, and updating computer systems and software.

burdens by step, numbers of and reasons for exits, employment status at exit, income at exit, evictions, and service participation.

The Lawrence HA's annual reports contain impact analyses on their public housing and Section 8 MTW participants. These analyses track participation, hardships, turnover, involuntary terminations, number of participants paying more or less than they would under percent-of-income rent calculations, and average amount of rent differential from percent-of-income rents. The reports also present a financial impact analysis of MTW that measures the amount of savings or loss to the HA due to the MTW rent structure. Lawrence HA officials believe that their MTW system is better because it allows the HA to examine outcomes and make adjustments based on those outcomes.

Reporting requirements under MTW changed most for those HAs in the systemic funding fungibility' category. According to officials of several such HAs, the MTW annual planning process (requiring preparation of an MTW Annual Plan and MTW Annual Report in lieu of other reporting to HUD[51]), while still time consuming, has promoted more strategic thinking and program creativity than had been the experience in satisfying pre-MTW reporting obligations. Several HA officials contended that previous reports did not help them internally in terms of planning. Creating the MTW Annual Plan generally involved some group discussions with staff members, and provided a time when staff examined the agencies' past performance, financial situation, and possible future initiatives. While, in fact, such officials did not need MTW to think strategically during their planning process, the flexibility of the MTW demonstration seems to have provided the opportunity and motivation to plan more purposefully.

[51] Merged assistance HAs are exempt from submitting to HUD a PHA Plan, required of other HAs. Instead, they submit an Annual MTW Plan and Report. The former is a comprehensive outline of the HA's activities and funding allocations. Its submission requires approval by the HA's Board as well as certification that a public hearing was held. The latter includes a consolidated financial report that details the sources and uses of funds and compares the HA's performance with its Annual Plan.

Chapter 5

EXPERIENCE WITH MERGED ASSISTANCE: RETHINKING FUNDING ARRANGEMENTS FOR FEDERAL HOUSING ASSISTANCE

Beyond requesting statutory waivers to undertake locally fashioned, non-standard program variations under MTW, six[52] of the original 24 demonstration HAs [53] chose to merge their HUD funding assistance under Section 8 (tenant-based),[54] Section 9 (operating subsidy), and Section 14 (capital grants for modernization) of the 1937 Housing Act, as amended. Instead of having to administer these funding sources separately for purposes that are unique to each source, the six HAs were given an agreed-upon equivalent of the three separate funding allocations they would have received in the absence of their participation in MTW, as well as a lump sum payment for tenant-based assistance reserves that otherwise would have been held by HUD for their possible use were they not participating in MTW. The agencies were authorized to use those funds to provide housing assistance for low-income families and

---

[52] They are: the Cambridge Housing Authority; the Delaware State Housing Authority; the Housing Authority of Louisville; the Housing Authority of Portland; the Seattle Housing Authority; and the Vancouver Housing Authority.

[53] As previously noted, 18 of the original 24 HAs remain in the demonstration as of October 2003.

[54] HUD's tenant-based, lower-income rental assistance program has evolved over time. The original Section 8 Existing Housing Program, enacted as part of the Housing and Community Development Act of 1974, provided a certificate authorizing a low-income family to select a housing unit that would rent for no more than the HUD-established fair market rent (FMR) for a unit with a given number of bedrooms in each housing market. The family paid a percentage of adjusted income (25 percent in 1974; 30 percent after 1981), and the HA paid the remainder of the rent to the owner. The voucher program, implemented in 1987, permitted a family to select any standard unit for which the owner was asking a "reasonable (market) rent". The HA would pay only the difference between 30 percent of the family's income and a payment standard set by the local HA based on the FMR. Beginning in 1994, HUD published a series of Conforming Rules making the certificate and voucher programs as similar to one another as possible without new legislation. In 1998, QHWRA removed the remaining statutory differences between the two approaches to Section 8 assistance. HUD published a Merger Rule providing transition instructions and requiring that all Section 8 certificates be converted to housing choice vouchers no later than October 1, 2000.

services to facilitate their transition to work in ways and proportions that were to be determined locally.[55] The ability to merge funds to this extent is otherwise not permitted under the terms of the1937 Act although, in the absence of MTW, some amount of a HA's funds can be used for purposes other than their primary objective. This chapter examines HA experiences with this aspect of the MTW demonstration.

Caveats

The experiences of HAs in merging their funding assistance as part of their participation in MTW, as reported here, do not represent the final word on this topic. This is the case for several reasons. First, MTW HAs are, at this time, only beginning the fourth year of a five- or (in some cases) seven-year demonstration period. Beyond that, the merged-funding experiences of these HAs may be different from those that will occur for HAs that have more recently been, or are currently being, enrolled in MTW. The new cohort of MTW agencies is, in certain ways, different from the original cohort reported on here. Some of the former, for example, are considerably larger than those in the original cohort, and some do not have histories as high performing agencies—unlike all of those in the original cohort. Moreover, the merged funding arrangements being agreed upon with newly enrolled MTW HAs may differ in certain respects from those of the original HAs; as will be discussed later in this chapter, the extent and uses of merged funds depend, in part, on the nature of such arrangements.

Nomenclature

The six MTW HAs choosing to combine the various forms of assistance they receive from HUD are frequently referred to as 'block grant' agencies. The term block grant may be somewhat misleading in this context, however; a more appropriate characterization is probably "merged assistance." This is the case for the following reasons:

1. *Funds are not provided to MTW HAs on the basis of a formula*, *as is generally the case with other federal block grants.* Instead, the amounts given to each HA are mutually agreed upon between HUD and the agency, based on such considerations as (a) previous allocation amounts, (b) adjustments for both local circumstances and yearly

[55] Two key features of the demonstration are that only provisions of the 1937 Housing Act, as amended, could be waived, and that HAs were obligated to serve essentially the same number and mix of households under the demonstration as they had served prior to entry into the demonstration. These issues are discussed in more detail later in this chapter.

increases, and (c) consideration of base determinations with respect to such things as FMR standards,[56] ACC basis[57], and Section 8 unit equivalents.[58]

2. *Funds are not provided to HAs as lump sum payments, and HAs do not completely have the ability to draw down funds as needed*. Operating subsidy and Section 8 payments are distributed to HAs in the amount of 1/12 of their total allocation per month, and modernization grants are drawn down by the HA through the federal government's Line of Credit Control System (LOCCS), with a maximum amount per draw down, on an otherwise as-needed basis. Only one of the three funding streams is, technically, a 'grant;' in fact, different restrictions apply to those funds compared to the other two subsidy streams because of rules governing federal grant use.

3. *According to the language of 42 USC 1437f,which established the MTW demonstration, the amount of assistance received by an MTW HA "shall not be diminished' by its participation in MTW.* In federal government experience, when funding through competitive categorical programs is converted to a single, formula-based block grant (as was the case, for example, with HUD's Community Development Block Grant), there may be a 'hold harmless' period during which recipients' formula-derived funding

---

[56] Fair Market Rents (FMRs) are standards set by HUD which determine the rent that would be paid in a local housing market in order to obtain privately owned, rental housing of a modest nature, with suitable amenities that is decent, safe, and sanitary. The FMR consists of a gross estimate of rent plus utilities (except telephone). HUD estimates FMRs annually for 354 metropolitan areas and 2,350 non-metropolitan county areas. Separate FMRs are established by bedroom size. They are published annually in the Federal Register. The HA establishes a local payment standard, which is between 90 percent and 110 percent of the area FMR and is the basis for determining the level of subsidy paid to each family.

[57] Annual Contributions Contracts (ACCs) between HUD and HAs contain the terms and conditions under which HUD assists the agencies in providing decent and sanitary housing for low-income families.

[58] Under current rules, Section 8 (or tenant-based) dwelling units are those that a family or individual leases or rents in the private rental market using a housing choice voucher. A family is issued a voucher once it is determined eligible under program regulations. The family searches for a dwelling unit to rent in the private rental market. The dwelling unit must meet HUD's housing quality standards, the rent must be reasonable, and the unit must meet other program requirements. The HA executes a Housing Assistance Payment (HAP) contract with the property owner that authorizes the HA to make subsidy payments on behalf of the family. The HA pays the owner the difference between 30 percent of adjusted family income and a HA determined payment standard or the gross rent for the unit, whichever is lower. If a family chooses a unit with a higher rent than the payment standard, the family must pay the owner the difference. The tenant-based rental assistance program involves a HA receiving from HUD an allocation of funding for a specified number of units. The amount of the funding that is reserved for the HA is determined based on the two-bedroom FMR for area, less the estimated tenant contribution, plus an estimated amount the HA will earn in administrative fees. The HA submits an annual budget for HUD approval, but funding must be renewed every three months. Renewal funding is provided only for the number of units under lease at the HA's actual per unit cost during the most recent quarter for the HAP payment and the administrative fee.

amounts are guaranteed not to be precipitously reduced below the levels of the sum of the combined categorical grants they had been receiving. Such a provision is intended to cushion any short-term funding losses that may occur for recipients that had been especially successful in obtaining competitive categorical funding. Eventually, however, the formula takes over and, for some, the formula amount is less than what had previously been received. Under MTW, however, there was no time limit to the provision that the amount of assistance would not be diminished. MTW HA officials generally understood this to mean that they would suffer no financial penalty as a result of participation during the entire course of the demonstration. For some, however, that turned out not the case, as will be discussed below.

The Fungibility of Merged-Assistance Funds

It is important to understand the differences in the way non-MTW HAs, and those MTW HAs that opted for merged assistance, receive and can spend HUD funds for supplying public housing and tenant-based assistance.

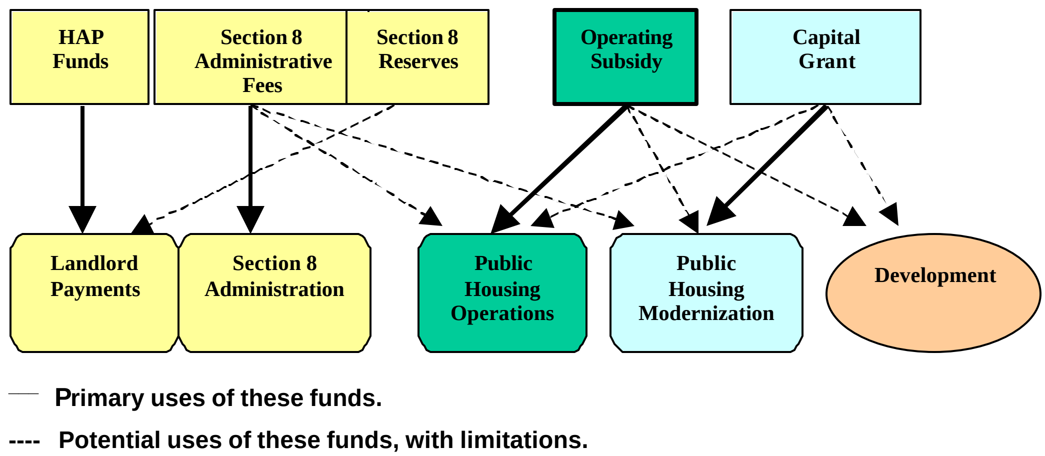
Non-MTW HAs are provided with three separate funding streams—public housing operating subsidies, public housing modernization grants (known today as Capital Funds), and tenant-based assistance (known today as Housing Choice Voucher) funding—each of which has a requisite use. There is, however, some opportunity to expend funds intended for one use for other purposes, as will be described below. Merged assistance HAs, on the other hand, are able to use funds from all three sources for any use as long as it pertains to the provision of housing assistance or transition-to-work services for low-income households. The difference between merged assistance HAs and all others, therefore, is in the *extent* to which the various HUD funding streams are fungible.

Figure 5.1 depicts the funding environment for most non-MTW HAs—the vast majority of HAs in the nation.[59] The top row of boxes shows the separate funding streams for the public housing and tenant-based assistance programs, distinguishing among three aspects of tenant-based assistance funding and two types of public housing funding. The solid arrows directed at the bottom row represent the primary ways that HAs are allowed to use these monies, while the broken lines represent either (a) additional funds that can be used under certain circumstances (e.g., Section 8 reserves) or (b) an allowance for additional or alternative uses that are

[59] While most HAs receive funds according to this depiction, not all of them do. For example, some HAs do not receive operating subsidies or modernization funds on a regular basis, and those that do not administer a tenant-based assistance program do not receive Section 8 funds.

permissible, at least to some extent. Specifically, non-MTW HA funding sources and allowable uses are as follows:

Figure 5.1. Funding Sources and Uses Absent MTW



- **Tenant-based assistance funds.** The three left boxes in the top row of Figure 5.1 all pertain to the tenant-based assistance program, shown as "HAP Funds," "Section 8 Administrative Fees," and "Section 8 Reserves." Under the terms of the 1937 Housing Act, as amended, HAs receive from HUD Housing Assistance Payments (HAP) funds to use for making rent payments to private landlords; these funds cover the difference between tenant-paid rent and total rent.[60] HAs also receive a fee for administering and managing their tenant-based assistance program ("Section 8 Administrative Fees"), and have some funding flexibility with respect to the uses to which excess administrative fees can be put (i.e., those that are above and beyond what is needed to administer the tenant-based assistance program). Excess administrative fees can be used for other "affordable housing purposes," such as to help fund the costs of operating or modernizing public housing. Finally, additional resources, called "Section 8 Reserves," are available to HAs for their tenant-based assistance program. Limited to the equivalent of one-month of a HA's total HAP funding for a year, these are held by HUD

[60] Under QWHRA, the Housing Choice Voucher program is funded differently (see HUD Notice PIH 2003-23). A central fund is used to cover amendments that will support a HA's costs in two situations not now covered by renewal funding: when a HA succeeds in leasing units authorized in its baseline but not leased and, therefore, not funded at the time of the most recent renewal; and if executed HAP contracts obligate all Annual Budget Authority (ABA) and the HA has expended 50 percent to 0 percent of its authorized ACC reserve level.

for use by a HA if it experiences unanticipated additional expenses for payments to landlords that exceed the annual HAP allocation. Used funds are replenished at the end of each year.

- **Operating subsidies.** Most HAs receive from HUD a public housing operating subsidy under HUD's Performance Funding System (PFS).[61] It is equivalent to the estimated cost of operating public housing (not including utility costs) minus the rent revenues received from tenants and other public housing related income to a HA.[62] Operating subsidies include an amount calculated to cover public housing utility costs, which can vary independently from other types of operating costs.[63] Operating subsidy funds are primarily used to pay for public housing operations but can also be used for capital (modernization) expenditures—i.e., non-routine or extraordinary maintenance such as replacing appliances, rebuilding a fence, repainting a community room, etc.[64] While there is no regulatory limit on the extent to which operating subsidies can be used for capital needs, there is a practical limit on such usage because of the obligation a HA has to cover its ongoing operating costs.[65]
- **Capital grants.** Many HAs also receive capital (or modernization) grants from HUD to pay for major repairs, upgrading, or extraordinary maintenance for their public housing properties/developments. Although that is their primary purpose, in fact up to 20 percent of each grant can be spent on operations[66] and an additional 20 percent can be spent on

---

[61] Of the HAs participating in MTW, the Tulare County HA is unique in that it does not receive any operating subsidy.

[62] Absent MTW, the amount of money HUD provides to each HA is based on its estimated expenses — calculated from a formula that is, in turn, based on historical experience (though this amount can be less when the Congressional appropriation for public housing operating subsidy funds, known as the Performance Funding System (PFS), is less than 100 percent of the estimate of the total national operating subsidy need for all HAs.

[63] HAs calculate an allowable utilities consumption level, which is the amount of utilities expected to be consumed per-unit, per-month by the HA during the requested budget year. This is typically equal to the average amount consumed per-month, per-year during the rolling base period (a 36-month period ending 12 months prior to the requested budget year). HAs multiply the allowable utility consumption level per unit per month for each utility by the utility rate in effect at the time the operating budget is submitted to HUD.

[64] For bookkeeping and accounting purposes, distinctions among 'ordinary maintenance,' 'non-routine/extraordinary maintenance,' and 'capital' expenses are not always clear-cut, offering HAs an additional amount of "funding fungibility" across the operating and modernization funding categories.

[65] Nationwide, HAs spend an average of about $7.00 of operating subsidy per unit month on 'non-routine' or extraordinary maintenance.

[66] This is for HAs with more than 250 units; prior to QWHRA, the amount was 10 percent. For HAs with 250 or less, up to 100% of modernization grants can be used for operating purposes.

"management improvements"[67] (in addition to 10 percent that can be used to administer the Capital Fund program).

- **Development.** Aside from competitive HOPE VI grants and the occasional availability of incremental vouchers, HAs do not now routinely receive funds that are explicitly or primarily designated for developing housing units or otherwise adding to the supply of affordable housing opportunities.[68] While HAs are permitted to use some portion of their operating subsidy funds or capital grants to pay for development of new units, those

[67] Prior to QHWRA, this amount was 10 percent.

[68] However, HAs that have demolished or disposed of units do receive replacement housing factor funding. That is, the Capital Fund Program (CFP) includes in the Capital Fund Formula a replacement-housing factor for the first five years that demolished or disposed-of units have been lost. If the HA meets planning, leveraging, obligation, and expenditure regulations, the factor is included in its CFP Grant for an additional five years. These funds can only be used for replacement housing.

funds are scarce and have other primary uses.[69] In addition, because newly developed units paid for out of operating subsidies or capital grants cannot themselves receive operating subsidies, few HAs use such funds for development purposes. Also, properties developed with these funds must have an estimated cost that is lower than the cost of providing housing assistance through tenant-based vouchers.

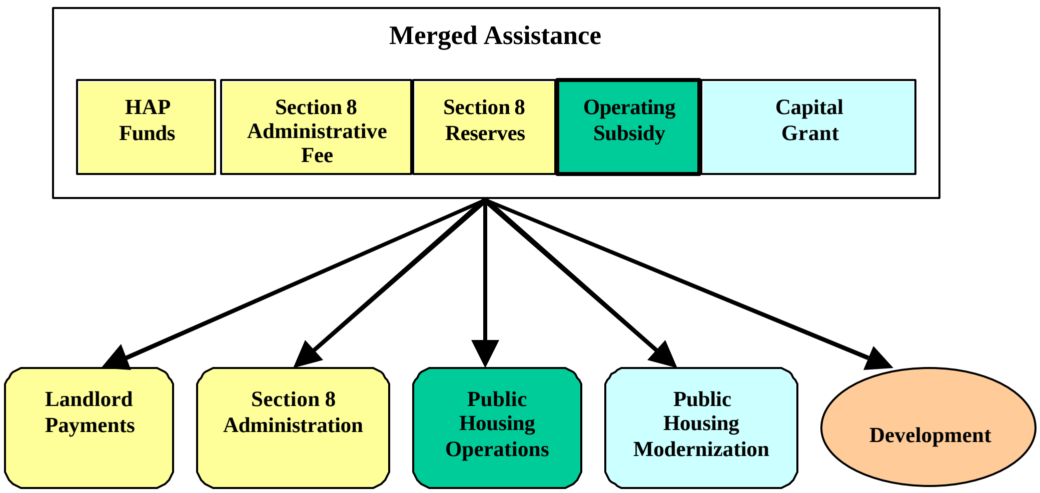
[69] HAs can, but generally do not, use operating funds and capital funds to develop public housing. Specifically capital funds can be used for the development, financing, and modernization of public housing projects (including the redesign, reconstruction, and reconfiguration of public housing) and making accessibility improvements. They can be leveraged and used for making debt service payments and for usual and customary finance costs for the development and modernization of public housing, including public housing in mixed-finance developments. This is called accelerated modernization. Operating funds can also be used for the cost of repaying, together with rent contributions, the debt incurred to finance the rehabilitation of public housing units and the costs associated with the operation and management of mixed-finance projects, to the extent appropriate.

HUD places various limitations on the use of these funds for development and new construction, however. In general, if a HA uses capital and operating funds for the construction or operation of public housing units and the new construction will result in a net increase in the number of units owned, operated, and assisted by the HA, the capital and operating fund formulas do not include additional funds for the new units. Units demolished under a revitalization program are included in the base number of units owned. Units that are part of a mixed-finance project or that otherwise leverage significant additional private or public investment may also be included in those eligible for inclusion in the funding formulas if the estimated cost of the useful life of the project is less than the estimated cost of providing Housing Choice Vouchers for the same period of time. HUD also limits the amount of public housing funds that can be used to pay the development cost of public housing units. In this instance, “public housing funds” refers to capital funds, public housing development funds, HOPE VI funds, Major Reconstruction of Obsolete Projects (MROP) funds, and operating funds. HUD has established a method for calculating a total development cost (TDC), which determines the maximum amount of public housing capital funding that may be used to pay for the costs of developing a public housing project. All costs except for excess demolition and remediation of environmental hazards and extraordinary site costs related to housing construction and community renewal, which are to be paid out of the public housing fund, must be within the TDC limit. HAs can request an exception for public housing and HOPE VI funds awarded in or prior to FY 1996.

While development activities are permissible using operating and capital funds, HOPE VI is the only program that provides sufficient funds to undertake large-scale development efforts. Using Capital Funds for development does not provide the same impact. Moreover, the practice of leveraging capital funds and using the replacement housing fund factor is relatively new and not yet widespread.

Under merged-assistance arrangements, HAs receive a payment intended to be the equivalent of their public housing operating subsidies, public housing capital grants, and tenant-based assistance funding. Figure 5.2 shows that by merging the assistance, such funds can be used for any purpose related to providing housing assistance and associated services—i.e., they are fungible across the tenant-based assistance and public housing spectrum of uses, including development.

Figure 5.2. Potential Uses of MTW Merged-Assistance Funding



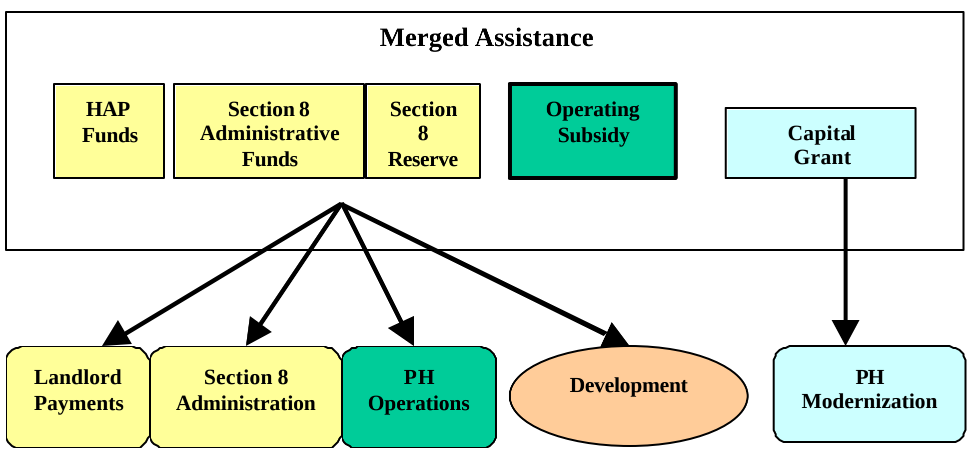
Merged-Assistance Experiences Under MTW: A Preliminary Summary

Of the six merged-assistance HAs, one of them (Louisville) has yet to participate actively in MTW for reasons discussed in Chapter 4. HA officials there also chose not to take advantage of the funding flexibility allowed under their MTW agreement, and continue to use each funding source for its HUD-proscribed purpose. To one degree or another, however, the remaining five merged-assistance HAs say they have taken some advantage of the funding fungibility provisions of MTW.

None of the merged-assistance HAs has actually consolidated its funds into a single, internal account for bookkeeping purposes; each of the funding sources continues to be accounted for separately. This is the case for several reasons. For one, HA officials perceive that HUD program monitors, HUD or state auditors, or community stakeholders expect funding streams to be separately identifiable for review or audit purposes. For another, there is HA concern that, at the conclusion of the MTW demonstration, there may be a need to return to a non-merged assistance set of accounts, which would be complicated if accounts were consolidated during the demonstration. Finally, funds to HAs are received or drawn down differently, depending on source. This apparently also deterred some HA finance and budget managers from attempting to put them into a single account.

Beyond not combining funds into one account, some HAs chose—during internal budgeting or planning deliberations—not to allow one or another funding source to be used for any purpose other than its HUD-proscribed use. In essence, they established a "firewall" around that source to separate it from the remainder of the HA's funding. Figure 5.3, for example, shows the case of a HA that chose to restrict use of that portion of its merged-assistance that is equivalent to its capital grant for modernization purposes only. Officials there did so to ensure that they continued to address their modernization backlog, and because their modernization grant was a relatively small share of the agency's overall budget. Another HA chose to restrict use of that portion of its merged-assistance that is equivalent to its operating subsidy exclusively for public housing operating purposes.

Figure 5.3. HA Decision to Restrict One of Its Funding Sources For a Specified Use



As a precursor to what will be discussed in more detail below, it can be concluded that all five merged-assistance HAs actively participating in MTW have made what can best be described as limited, albeit strategic uses of their funding fungibility authority. Although modest in terms of the amount of funds used for purposes other than what they could, or would, have been used for in the absence of merged-assistance flexibility, officials of most of them consider those uses to have been essential to their ability to respond flexibly to either strategically planned or unanticipated operational or development needs associated with their mission. Officials of one of them, however, consider further deregulation and less oversight by HUD to be even more important than having fungible assistance; hence, they would willingly give up the latter for more of the former.

There is variation across HAs with respect to the particular uses that have been made of funding fungibility authority. Those uses can be described as follows:

- **Financial recovery uses.** These consisted of movement of funds so as to compensate for financial overextension occurring in one or another program area—but especially the area of tenant-based assistance. Overextension occurred as a consequence of: uncontrollable or unanticipated housing market, economic, demographic, or other changes occurring during the time of the demonstration; HA policies or actions that had unanticipated or adverse financial consequences; the formula used to derive the merged assistance funding level provided to the HA; or some combination of these factors.
- **Standard uses.** These consisted of movement of funds that otherwise would have been authorized, in non-MTW circumstances, for one standard use (such as modernization) to another (such as operations)—so as to more flexibly, efficiently, or effectively provide housing assistance or services. While most of the merged-assistance HAs indicate some amount of cross-purpose use of funds, in many instances it is not clear from HA data or explanation if that amount exceeded that which is allowable in the absence of MTW-authorized merged assistance. Another complication in attempting to determine if funding fungibility exceeded non-MTW authority is that funds sometimes revolve (i.e., are temporarily “paid out” of one account for some purpose only to be later “paid back” when other funds are available). Hence, tracking and accounting for the extent of cross-purpose use is extremely challenging.
- **Development uses.** These consisted of the addition (through construction, acquisition, or rehabilitation) of new, affordable housing units either owned directly by a HA or by another entity with support from the HA. While use of HUD operating subsidy and capital grant funds for this purpose is theoretically permissible under non-MTW circumstances, actual use of such funds for development is rare or non-existent among non-MTW HAs. Some MTW HAs, however, used a portion of their merged-assistance funding, often in conjunction with other funding sources (including HOPE VI grants, Low-Income Housing Tax Credits, bond financing, housing trust funds, conventional loans, etc.) or in combination with some amount of project-basing of tenant-based assistance, to develop new housing units to either add to the affordable housing stock of the community or compensate for losses to that stock—such as those resulting from HOPE VI demolitions or shrinking private-sector housing resources. In part because no prior HUD approval was required in so doing, these agencies were able to respond quickly and flexibly to market opportunities. Because some of the funds (especially lump-sum payments for reserves) were in-hand and available for immediate use, other prospective

funders apparently took the agencies more seriously than they had under previous circumstances. And, because they were able to complete such deals, these HAs have become more significant and active ‘players’ in their local housing markets.

Variations across HAs with respect to how, and the extent to which, they used their merged-assistance funding flexibility will be further discussed below. At this point, it is important to note that such variations are a function of certain antecedent conditions and circumstances that notably constrained and circumscribed the extent to which merged-assistance funds could be used differently from what would have happened in the absence of MTW. The conditions and circumstances that influenced the uses of merged-assistance funds are best explained by considering three stages of MTW: the situation of each HA prior to participation in the demonstration; the terms of the individual MTW agreements (including merged-assistance payment levels) worked out at the initiation of MTW; and HA experiences (including internal policies and activities, external conditions, and intra-demonstration negotiations with HUD) that occurred during the first three years of MTW. When those conditions and circumstances are considered together, it should become clear that the possibilities for extensive use of funding flexibility authority were very limited.

Prior to describing the uses of merged-assistance funds in more detail, then, and to help establish an appropriate expectation as to how much and what kinds of uses could have been anticipated under MTW, the following sections discuss HA situations prior to entry into MTW, experiences at the MTW agreement stage, and experiences during the demonstration.

The Situation of HAs Prior to MTW Entry

Circumstances existing prior to the time of initial HA participation in MTW had an effect on the nature and extent of each merged-assistance agency’s funding fungibility experience. Among these circumstances were:

- Unique local environments, which varied from HA to HA;
- The national funding picture pertaining to public housing and vouchers, which theoretically had a similar impact on all HAs but that, in certain respects, affected each somewhat differently because of unique HA histories; and,
- The legislative terms of the MTW demonstration that, also, theoretically affected all participating HAs in a similar way but, in fact, affected each somewhat differently because of varying interpretations of those terms.

Some pre-demonstration conditions or circumstances tended to *encourage* more use of funding fungibility while others tended to *discourage* the extent to which HAs were able, or wanted, to move funds from one use to another.

Unique local environments. Local environments that existed at the time each HA entered the MTW demonstration sometimes had an effect on the extent and nature of its fungibility experience. Housing market conditions, the quality of HA planning for MTW prior to entry, and the character of a HA's community relationships are illustrations of local variables that had an effect on fungibility use.

In one situation, for example, a very tight local housing market motivated the HA to transfer some of its voucher HAP funding to development uses—in order to add to the stock of affordable housing that was otherwise unavailable in the private market. For that HA, funding fungibility was essential to its broader MTW plan to take advantage of regulatory flexibility.

Another factor affecting fungibility experience was the extent to which HA officials, prior to entering the demonstration, had given advance thought to how they might best use the freedom from HUD rules that MTW provided to engage in different strategies and approaches to providing housing assistance. Particularly important was whether that planning required the flexibility to move funds from one use to another. Related to this were variations in individual HA capacity to forecast future income, expenses, and policy implementation experiences to ensure that their merged assistance would be sufficient to cover their costs and undertake their planned activities—compared to the funding they would have received had they chosen not to be a merged-assistance site.

As will be further discussed below, HAs that strategically negotiated with HUD a funding arrangement that gave them financial advantage beyond where they would have been in the absence of MTW were in a better position than others to move funds from one use to another or use funds for non-standard developmental purposes once they were part of the demonstration. The best examples of this involve cases where voucher utilization was less than 100 percent at the time of entry to the demonstration and where HA officials were able to make the case that this was not caused by their own policies or practices but, instead, by uncontrollable market conditions. These HAs received HAP funding, administrative fee funding, and reserve funding for the full extent of their voucher allocations, which, in the short term, provided them with funds that did not have an immediate obligation. In one instance, this level of funding was further enhanced because the HA was able to demonstrate that its particular housing sub-market justified pegging the HAP portion of its merged-assistance allocation to more than 100 percent of the FMR, thereby adding to their budget authority and providing the HA with yet additional funding flexibility.

Finally, HA relationships with their local communities also had some bearing on the nature and extent to which funding fungibility applied. This was especially the case where community support was essential to a HA's application for MTW status,[70] and where community groups were wary of allowing the HA to 'move funds' from one use to another at its discretion. In at least one instance, community opposition succeeded in constraining such movement.

The national funding picture. The funding environment for public housing and Section 8, along with existing HA legal obligations at the time of entry into MTW, also affected the extent to which funds could be moved from one use to another. The fact that program-wide PFS operating funding shortfalls and capital grant modernization backlogs existed at the time of entry into MTW generally depressed fungibility opportunities. Lean HA operating or capital grant funding meant that moving already limited funds from one use to another was likely to further operating shortfalls or modernization backlogs. Moreover, when going into MTW, each HA had legal obligations to current landlords (for Section 8 payments), residents, and others that could not be altered in the short term—also limiting the opportunity to move funds from one use to another.

While the national funding environment theoretically affected all merged-assistance HAs in the same way, in fact the impact of funding limitations tended to vary somewhat from HA to HA—depending on the unique histories of each. Intended to be fair and equitable, funding formulas (such as PFS and capital grants) nevertheless sometimes advantaged some and disadvantaged others. Other considerations aside, those HAs that had been somewhat advantaged under normal, non-merged-assistance funding were in a somewhat better position than those that had been somewhat disadvantaged with respect to being able to move funds from one use to another.

The demonstration terms. The legislative terms of MTW also affected the extent to which funds could be moved across uses. Two key features of the demonstration were that only provisions of the 1937 Housing Act, as amended, could be waived, and that HAs were obligated to serve essentially the same number and mix of households under the demonstration as they had served prior to participation. The limitation on 1937 Act provisions meant that HA obligations, such as the requirement to use Davis-Bacon wage rates, could not be waived, thus limiting a HA's flexibility to save money that could then be used for another purpose. Arguably more important, however, is a HA's obligation under MTW not to reduce the amount of service provided or to alter the family size characteristics of households being served. Had the demonstration allowed HAs the opportunity to serve fewer or different sized households, there

[70] To apply for participation in MTW, the statute establishing the demonstration required HAs to provide for citizen participation through a public hearing or other means. The MTW plan put forth in the application was required to take into account comments from the public, including current and prospective residents who might be affected by the HA's participation in the demonstration.

would have been more opportunity to reconfigure funding uses than occurred within the confines of the demonstration rules.

Notwithstanding these rule constraints, which had a similar impact on all participating HAs, variations in funding fungibility opportunities may have resulted from different interpretations of the rules. Officials of some merged-assistance HAs, for example, interpreted the requirement that HAs serve the same number and kinds of households to apply *throughout* the demonstration, while others interpreted it to apply *only at the conclusion* of the demonstration. The latter interpretation provided more opportunity than the former to move funds from one use to another during the demonstration.

Experiences at the MTW Agreement Stage

Each of the MTW merged-assistance HAs submitted proposals requesting different waivers and calculations for a lump-sum payment[71] to be made *in lieu* of receiving standard funding from HUD. The terms of the agreements negotiated between HUD and each HA were similar in many respects, but there were a few notable variations.[72] Those terms pertain to the three funding streams that HAs otherwise receive from HUD: voucher subsidies; operating subsidies; and capital grants. Since the amount of money available to fund merged-assistance payments varies over time, depending on the level of Congressional appropriations provided for each funding stream, HUD and the merged-assistance HAs negotiated a method of accounting for yearly increases in costs and payments over the life of the demonstration.

(A) Voucher program funding. Absent MTW, funding for the voucher program is comprised of HAP, ongoing administrative fees, special fees, and audit costs. In addition, there are two other categories of funds that are used to cover the costs incurred by a HA for the voucher program: HAs receive funding from HUD to cover utility allowances for voucher recipients; and, they have access to reserves if their actual expenses exceed their annual allocation of HAP funds, as discussed above.

The amount of money each merged-assistance HA received was intended to be the equivalent of the funds it would have received in the absence of MTW participation. Some HAs negotiated assistance terms somewhat differently from others or received funding that, in fact, would not have been given in the absence of MTW. In addition to tenant-based assistance

[71] Although funds are not actually received as a lump-sum payment, as indicated above, the term “lump sum” is used here to differentiate merged-assistance funding from the three separate funding sources that apply in the absence of merged assistance.

[72] It should be noted that agreements made with the original cohort of MTW HAs, and the process for arriving at them, are different from those made with later entries to the MTW demonstration.

reserve funds, which they all got, the best example of cross-agency differences is where a HA had not been utilizing all of its tenant-based assistance vouchers at the time of entry into MTW. In the absence of MTW, such a HA would have received only the amount in HAP funding required to support actual units leased. In the merged-assistance mode, however, funding levels were pegged at full utilization. Two of the five merged-assistance HAs had low utilization rates and, when negotiating their MTW agreements, successfully made the case that these rates were not due to HA performance problems but, instead, to especially tight housing markets.[73] As a result, they received the funds to which they were entitled under the tenant-based assistance program as if they were at 100 percent utilization. This provided them with additional discretion compared to agencies that were fully utilizing their vouchers, since the funds in the short term did not need to be paid to landlords. A second example, as noted above, is where HAP payments, which are normally pegged at the FMR for each area, were negotiated by a HA to be at an amount higher than the FMR—for reasons related to exceptionally tight local market conditions that were expected, at the time, to get even tighter.

The funding formula that determined how much money HAs received to cover utility allowances was also negotiated in MTW agreements. Under the housing voucher program, and in some public housing (particularly where electric baseboard heat is prevalent), tenants are provided utility allowances.[74] They are required to pay all or a portion of utility costs for their units directly to a utility company. If utility costs increase, the HA increases the HAP payment by the same amount so that a tenant's gross rent (rent plus utilities) remains the same. Thus, in terms of their negotiated agreements, merged-assistance HAs are responsible for dealing with the consequences of utility cost increases, by paying larger HAP payments (for those paid through allowances but not expenses). However, in extreme circumstances, some HAs received compensation from HUD during the demonstration.

---

[73] Since providing subsidies to HAs that have low utilization rates may be perceived as *rewarding* under-utilization resulting from mismanagement, it is important to determine if low utilization is a result of HA policies or performance issues, on the one hand, or especially tight housing market conditions or other uncontrollable factors, on the other. See, for example, U.S. Department of Housing and Urban Development, Office of Policy Development and Research, *Costs and Utilization in the Housing Choice Voucher Program*, July 2003.

[74] HAs estimate the average amount a tenant will pay each month for utilities based on the unit size (number of bedrooms), the type of utility the tenant must pay, and building type, then develop a utility schedule that is used to determine tenant rent. If the utility allowance is greater than the total tenant payment, the HA will make a utility reimbursement to the family or to the utility provider that equals the difference between the total tenant payment (TTP) and the utility allowance. Minimum rent requirements established by QWHRA do not eliminate the possibility for utility reimbursements. The minimum rent is the minimum TTP a family can be charged for rent and utilities. The utility allowance is subtracted from the TTP to determine the Tenant Rent and if there will be a utility reimbursement. Under QHWRA, families in the Public Housing program are permitted to choose between paying an income-based rent and a flat rent. If they choose to pay a flat rent, they may pay utility costs but are not provided with a utility allowance.

Additionally, HUD provided merged-assistance HAs with a one-time, lump-sum payment of Section 8 reserve funds equivalent to two years worth of housing voucher reserves (i.e., two months worth of their HAP), which were not to be replenished for the duration of their participation in the demonstration. As noted, absent MTW, HAs have access to such reserves only if their actual expenses (for payments to landlords) exceed their annual allocation of HAP funds. The payments, therefore, represented a new source of money to which HAs had previously not been in possession or could use only for a specified purpose. Since merged-assistance funds are fungible, the reserve funds could be used for any housing assistance and transition-to-work service purpose—not just to pay landlords.

In sum, there were several changes to the voucher subsidy calculation for merged-assistance HAs that affected the amount of funding each received during the first year of the demonstration. Each benefited from a one-time payment of reserves, and those that had underutilized voucher funds immediately improved their financial situation. And, the HA that negotiated for funding pegged at a rate above the FMR improved its financial situation beyond that.

(B) Operating subsidy funding. The actual costs of operating public housing do not fluctuate dramatically from year to year, but the amount of rent revenue HAs receive from tenants can vary—as a result of local or national employment trends or changes in the population of public housing residents. In their MTW agreements, HAs received funding amounts that were pegged at the allowable expense level in the base year, assuming 97 percent occupancy. As a result, however, two HAs were challenged from the very beginning because their operating subsidy calculations involved a base year that was one full year behind their actual costs—due to fiscal year technicalities and discrepancies.

Prior to MTW agreement negotiations, cost reductions or increases in public housing due to changes in energy consumption were split equally between HAs and HUD.[75] Under merged assistance, however, HAs are wholly responsible for changes in consumption levels: they retain 100 percent of the savings, and must cover 100 percent of any additional costs due to increases in consumption. Throughout the demonstration, consumption is held constant, but rates are adjusted annually to reflect actual current rates; thus, merged assistance HAs do not benefit or suffer from fluctuations in energy costs, similar to non-MTW HAs.

In sum, at the MTW agreement stage, while there was less variation across HAs with respect to the merged-assistance calculation for operating subsidy amounts than for tenant-

---

[75] The Public Housing Operating Fund was established under QHWRA to make funds available to HAs for the operation and management of public housing. To encourage energy efficiency, the Operating Fund Formula replaced the 50-50 split of savings or increases in cost due to changes in utilities consumption under the Performance Funding Subsidy program to a 75-25 split between HAs and HUD, respectively.

based assistance amounts (the latter involving differences in utilization rates, utilities, and FMR-basis), there was still some variation due to base-year cost calculations. The latter left a few HAs at an apparent financial disadvantage.[76]

(C) Capital grants funding. No changes were made to the calculation for the capital grant portion of merged assistance. Therefore, there were no differences across HAs in terms of advantage or disadvantage relative to non-merged assistance status.

MTW waiver negotiations. In addition to opting for merged assistance, these HAs also requested programmatic waivers of various 1937 Act provisions. Some of them were intended primarily to effect cost savings, while others were motivated by programmatic, not cost-efficiency, objectives. In fact, however, the former may not always have been realized during the demonstration, and the latter could have resulted in financial losses to a HA. The point here is that the financial impacts of MTW waivers on merged-assistance HAs—whether they resulted in cost savings or losses—affected their ability, or need, to move funds from one use to another during the demonstration. Cost *savings* resulting from MTW initiatives allowed for using funds for non-standard development or other cross-use purpose, while *losses* resulting from such initiatives may have required movement of funds for financial recovery purposes.

Experiences During the Demonstration

A key issue for those MTW HAs that shifted to merged assistance was the degree to which their local economies or housing markets changed over the course of the demonstration, and how that affected their financial situation. For example, while their negotiated merged-assistance agreements may have been sufficient to cover costs for successfully implementing and managing their HAs at the beginning of the agreement, a downturn in the economy (and subsequent decreases in tenant incomes and rent revenues) could quickly put a HA in a tight financial position. Or, subsequent changes could lead to an improved financial position, such as occurred when one of the merged-assistance HAs, anticipating a problem with prospective rent decontrol that was scheduled to occur following entry into MTW, experienced no such problem. In fact, the HA was able to use merged-assistance funds that its officials believed would be needed to cover tenant-based assistance rent increases to acquire more housing units.

[76] With respect to operating subsidies, it is more likely that HA would be differentially impacted by increasing or decreasing rent revenues as a result of changing employment rates and employment compensation levels (which, indeed, occurred during the demonstration at a few HAs). There is some risk for HAs if utility consumption rises, but that is not a likely scenario. More likely, HAs can reduce consumption and realize savings through a variety modernization activities, like replacing windows or inefficient heating or plumbing systems—some of which can be paid for by using reserve funds or other local program funding.

While negotiated agreements provided a financial framework for the MTW demonstration at each HA, it is at the demonstration stage that HAs realize the costs and benefits of their proposed plans. In the course of the demonstration, HA officials were challenged to reconcile the consequences of proposed policy or procedural changes (internal factors) with the impact of changing local conditions (external factors). For some HAs, these internal and external factors had a significant impact on their financial situation. This, in turn, affected their ability to make use of the more flexible funding fungibility allowed under MTW. For instance, one HA that experienced significant financial losses over the course of the demonstration made use of its funding fungibility (and policy flexibility) to cover shortfalls. HAs that were advantaged as a result of internal or external changes had a broader set of options from which to choose, and were able to make use of MTW's enhanced funding fungibility authority to advance their policy priorities. Both internal and external factors affecting funding fungibility experiences are discussed below.

Internal factors affecting funding fungibility experiences. Two principal internal factors affecting the extent and nature of funding fungibility are costs relating to (a) MTW administrative and policy changes and (b) HA staffing.

(A) Administrative and policy changes. Like other MTW HAs, officials of merged-assistance HAs saw the demonstration as an opportunity to make significant changes in their policies and procedures. Where some of these administrative changes were designed to maximize internal efficiencies and reduce overall costs, others were attempts to alter the relationship between the HA and its clients.

There are several instances in which unanticipated events occurring during the demonstration had negative financial consequences for HAs, which then had to absorb the costs out of their merged-assistance funding. For example, one HA's MTW strategy included developing a strong partnership with the State Department of Health and Social Services for the provision of case management to residents enrolled in the TANF program. However, the HA later learned that only a small fraction of its MTW participants were also enrolled in TANF and, as a result, had to itself assume case management responsibilities for these participants by hiring additional Family Self-sufficiency personnel. This involved a cost that had not been anticipated when the HA entered the MTW demonstration. According to HA officials, this would not have been possible in the absence of the HA's funding flexibility. At another merged-assistance HA, a considerable amount of money was lost when the agency merged its tenant-based certificate and voucher programs. In the conversion, a pre-QHWRA voucher subsidy calculation was used—providing a 'shopper's incentive' to former certificate program participants whose rent was below the payment standard—anticipating that it would save the HA money. As it turned out, the policy cost the HA far more than it saved, and those costs had to be paid out of the HA's pre-established merged-assistance amount.

Other HAs were able to take advantage of savings they could retain by reducing utility expenses in public housing. Some of these improvements may have cost the HA money initially, but the savings are being recaptured in subsequent years. And, still other HAs partnered with their city or with private developers to fund utility improvements. For example, one merged-assistance HA acted as its own energy savings company and worked with private investors to replace the heating system in one of its properties. The private investor allowed the new boiler to be used as collateral against the loan it made to the HA, so the HA had to supply only a small portion of the total cost of this project and did not have to tie up its equity to finance it. When the loan is paid back in 12 years, the HA will own the new boiler outright, have saved its modernization money, and benefited by reducing energy costs—savings that will redound entirely to the HA. Absent MTW, HAs are required to take the additional steps of gaining prior HUD approval, negotiating the consumption base, and working with a third-party energy savings company, which reduces the share of the energy savings retained by the HA.

At another site, the HA received city funding to install new low-flow toilets, with the city paying for the toilets and the labor to replace them and the HA saving a considerable amount of money in reduced water bills—recouping the entire value of the savings.

Of course, not all proposed administrative changes brought about significant financial benefits. For example, one HA that had anticipated sizeable efficiencies from reduced reporting to HUD and merger of its Section 8 certificate and voucher programs ended up with lower-than-expected savings because of the time and expense involved in developing a set of alternative policies and procedures. And, reduced savings lessened the opportunity for taking advantage of funding fungibility authority.

(B) Staffing opportunities and constraints. HA staffing circumstances also seemed to have some effect on different agencies' funding fungibility experiences. In fact, there was considerable variation across the merged-assistance HAs in the degree to which staff members were involved in the original MTW application, understood MTW, and were able to take advantage of the flexibility offered under the demonstration.

After three years of participation in MTW, for example, some HAs had the same senior staff members as were involved in pre-MTW discussions. Such persons had a clear idea as to the history of the agency's involvement in MTW—and of its philosophy, why their agency had applied, and what they were trying to achieve. As a result, those staff members seemed to be in a good position to think outside of their traditional ways of planning or implementing programs, and consider the financial consequences of their actions—since these affected the HA's financial situation. In some instances, such creativity was also possible in the absence of MTW, but MTW appeared to motivate and empower these HAs to go beyond the routine. And, in some cases, this worked to the financial benefit of the agency. This is in contrast to other HAs that had greater staff turnover or less staff involvement in the MTW proposal from the beginning. In such places, MTW was talked about more in terms of the benefits of waivers (such as the time and effort saved by not having to seek HUD approval for program changes) and less in terms of having an opportunity to take full strategic advantage of merged-assistance flexibility.

Staff involvement clearly affected budget-allocation decisions. At some HAs, directors or budget administrators made decisions that program staff followed while, at others, staff came together to discuss which programs should receive what amount of money. These differences also seemed to affect the agencies' orientations with respect to taking advantage of funding flexibility.

Community and state auditing or 'buy-in' also appears to have affected decisions that HAs made regarding program funding. Officials at one HA, for example, indicated they had discussed the possibility of moving some of their Housing Choice Voucher funds to help subsidize a locally funded affordable housing program. They chose, however, not to do so because of concerns about how this might be received within the community. Instead, they set aside some number of tenant-based vouchers for residents of the locally funded program, believing this to be a more politically acceptable strategy.

External factors affecting funding fungibility experiences. Three categories of external factors affected the extent and nature of HAs' funding fungibility experiences: broad changes in the local economy; shifts in the local housing markets; and local demographic changes. These were among the least predictable, and most consequential in financial terms. Though, as described above, some agencies attempted to account for the dynamic changes taking place in their communities when negotiating their MTW agreements, some environmental changes were simply not knowable in advance. And, while all HAs must contend with changes in their communities, merged-assistance HAs did so under an entirely new funding arrangement—one that was less elastic by design.

(A) Local economic changes. For all HAs, anticipating and dealing with changes in local economies proved to be a challenge, particularly when it came to tenant-based assistance programs. Significantly higher unemployment in the Pacific Northwest, for example, where three of the merged-assistance HAs are located, translated into lower rent revenues for HAs and, in some cases, considerably higher HAP payments to landlords—as record numbers of residents requested adjustments to their incomes and rent payments.

(B) Local housing market changes. For some HAs, rapid change in housing costs resulted in a significant increase in the FMR at some point during the demonstration period. For example, in 1999, the FMR that applied to one metropolitan area increased by 8.8 percent while the HA's funding from HUD under merged assistance increased by only 3.5 percent, as established under the terms of its MTW agreement. As a result, more money was paid out to landlords than the HA received in funding support, obviously working to the detriment of the HA. In contrast, and as discussed above, even where prospective rent changes were reasonably forecast and taken into consideration in an MTW agreement, change did not always occur exactly as projected. That is the case for a HA expecting dramatic rent increases to result from statewide abolition of rent control and, consequently, including a provision in its merged-assistance funding to account for this. In fact, rents did rise after that point, but did not reach the highest levels that had been anticipated and, more recently, have begun to decline somewhat. These trends worked to the benefit of the HA.

(C) Population changes. Also, as discussed above, population increases in one community, coupled with a HA decision involving absorption of portable vouchers issued by other agencies, resulted in significant costs to the HA.[77] As part of its self-sufficiency program and in consideration of the support it offered to tenants, the agency established time limits on receipt of its tenant-based assistance. HA officials believed it only equitable to ensure that households issued such assistance by other HAs moving into their jurisdiction receive the assistance on the same terms. Hence, they chose to absorb all of the portable vouchers that entered the community. The agency did not anticipate, however, that in the first two years of the demonstration it would absorb close to 1,000 additional unit-months of voucher assistance—without obtaining any additional HAP funding. This resulted in having to expend a significant amount of money out of its merged-assistance funds, for payments to landlords.

(D) Utility costs. The way that public housing utility costs were calculated in merged-assistance agreements allowed for the possibility of cost savings to be retained by HAs, but also meant that HAs risked any increases in consumption that might occur. Absent MTW, savings from reduced consumption were shared by the HA, HUD, and a third-party energy savings company, and were phased out over a three year period. Thus, their savings were short term.

Financial Outcomes Resulting from Merged Assistance

Variations in local environments going into MTW, in merged assistance agreements negotiated at the beginning of MTW, and in experiences during the demonstration all interacted

[77] Voucher holders are permitted to use their housing assistance in any location nationwide where there is a HA operating a Housing Choice Voucher program. If a family does not live in the jurisdiction of the HA that issued the voucher at the time the family applied, the family must rent a unit within that HA's jurisdiction for 12 months before being eligible to "port out"--or move to another jurisdiction with assistance. When a family moves to another jurisdiction, the payment standards of the jurisdiction in which the family leases are used to determine the assistance payment for the family. The HA in the jurisdiction to which the family moves may decide to "administer" the voucher assistance on behalf of the initial HA, billing the initial HA for the HAP payment and 80 percent of the administrative fee, or to "absorb" the family into its own voucher program, returning the subsidy of the initial HA and providing the family with its own voucher assistance.

to produce different financial consequences for each merged-assistance HA. Compared with the level of HUD funding each would have received had it not been for merged-assistance, some HAs, in fact, were either a bit more advantaged or disadvantaged. That is important because what each HA did with its merged assistance flexibility depended, at least in part, on where it fell on this financial advantage-disadvantage continuum. Examples of differences across HAs follow.

Through use of MTW statutory waivers and merged-assistance flexibility, one HA sought to change the then current mix between project-based and tenant-based assistance in its community, increasing the proportion of the former at the expense of the latter. This was because the existing mix, in conjunction with standard national program rules, did not correspond well to the housing market conditions of that community.[78] Anticipating continuation and likely worsening of those conditions, the HA negotiated a merged-assistance agreement in which it received the equivalent of 100 percent of its HAP funding, pegged at 120 percent of the FMR—despite the fact that its tenant-based assistance utilization rate was considerably less than 100 percent at the time. The rationale was that the HA had previously been at a disadvantage because housing market conditions prevented utilization of funds that otherwise would have been available to it. These merged-assistance arrangements, therefore, allowed the HA to receive those funds and use them for developing additional units. Hence, as a result of pre-existing conditions in the community, the HA's strategy for using waivers and merged-assistance, and the specific merged-assistance arrangements it negotiated, the HA's merged assistance amount was in excess of what it would have received absent MTW, although essentially comparable, in theory, to what it was entitled to have received if local market conditions had been more conducive to tenant-based assistance utilization.

Another HA was financially strengthened because of the way in which administrative and local policy changes during the demonstration period interacted with merged-assistance funding arrangements. The combination of program-wide repeal of federal preferences for admission to Section 8 and public housing and an MTW-authorized change in the HA's waiting list policy resulted in a dramatic increase in elderly voucher holders. This was because the HA combined its Section 8 and public housing waiting lists, requiring all but elderly and disabled applicants who came to the top of the list to choose the first available option—whether a public housing unit or voucher—or be dropped from the list. The policy was intended to facilitate occupancy of public housing units. While a family household that was offered a public housing unit had the choice of either accepting it or being dropped from the list, an elderly or disabled person could reject the unit and wait at the top of the list until a Section 8 voucher became available. As a

[78] Rental market conditions had been especially tight, and getting tighter, prior to MTW as increasing numbers of private-market landlords had been able to rent their units at well above the FMR, making it impossible for some low-income households with tenant-based assistance to compete.

result, a disproportionate number of elderly or disabled households received vouchers as compared with what had been the norm. Since many such households had guaranteed incomes from Social Security or other sources (compared to some family households with no or very limited sources of income), the consequence of this policy was an overall decrease in HA payments to landlords at the same utilization level. Under merged-assistance funding arrangements, unused HAP funds were available to the HA for other uses, which would not have been the case under standard voucher funding rules.

As compared to the above examples, some HAs faced financial challenges as a result of their merged-assistance agreements. The most serious involved a HA that, at the time of its agreement, was not in a position to anticipate future population and housing market changes that would occur in the next several years. Those changes, combined with a merged-assistance operating subsidy funding level based on year-old data as well as various administrative and policy decisions taken by the HA during the demonstration,[79] ultimately resulted in a serious financial challenge for the HA. Although HA officials presumed their merged-assistance funding would not disadvantage them, given the statutory language establishing the MTW demonstration, that turned out not to be the case. To recover from significant shortfalls, the HA had to exhaust its lump-sum tenant-based assistance reserve funds, lower its voucher utilization rate, and seek additional funding from HUD.

Two other HAs were also financially challenged in one way or another as a result of their MTW experiences and merged-assistance funding arrangements. As a result, both requested alterations to their original agreements. One of them made the case for, and received, a one-time compensation for a spike in public housing utilities. The second recovered monies from HUD for tenant-based administrative costs and utility costs that the HA asserted were not appropriately accounted for during the initial merged-assistance negotiations between HUD and the HA.

---

[79] These primarily involved: (a) the HA's decision to absorb all portable voucher households moving from elsewhere to the community into the HA's MTW voucher program, so as to ensure that all such recipients would be under the same rules (including time limit rules); and (b) establishment of a 'shoppers incentive' associated with the HA's merger of its Section 8 certificate and voucher programs. The latter, begun prior to the QWHRA-required merger of the two programs and prior to issuance by HUD of merger implementation guidance, was intended to prevent higher payments to landlords that would have had to come out of the HA's fixed-amount merged-assistance funding level. Instead, it resulted in payments to tenants of costly shopping incentives, which also came out of the HA's fixed-amount merged-assistance funds.

Uses of Merged-Assistance Authority

Preceding sections have covered the financial experiences of merged-assistance HAs over the first three years of MTW. They indicate a range of experiences due to variations in planned MTW program changes, changing utility costs, changing housing market conditions, and changing local economies, among other things—all of which affected the uses of merged-assistance authority. Those experiences have been described as financial-recovery uses, standard uses, or developmental uses.

Financial-recovery uses. Some merged-assistance HAs had experiences during the course of the demonstration that resulted in financial difficulties—a portion of which were related to how their MTW agreements defined the subsidy calculations. While these were not in any way desired outcomes, HA officials used their financial flexibility to help weather such difficulties.

One HA, for example, used the capital portion of its merged assistance funds to cover shortfalls in its voucher program, while another used excess capital funds and voucher funds (voucher underutilization) to cover operating subsidy shortfalls. Other HAs used voucher reserve funds (as well as funds available because of voucher underutilization) to cover operating and voucher program shortfalls. Another HA lowered its tenant-based assistance utilization rate in order to make up for losses resulting from the timing of its funding cycle. These shortfalls were a result of a variety of experiences: downturns in local economies, which lead to lower rent revenues or higher HAPs; unanticipated administrative costs for administering voucher programs; and, disadvantages because of the base-year used to establish a portion of the merged-assistance agreement—where costs were based on experiences that were one full year behind the start-up date. According to some HA officials, shortfalls also resulted from the elimination of the Public Housing Drug Elimination Program (PHDEP). Except for PHDEP cuts, HUD would otherwise have covered such shortfalls in the absence of MTW.

In some instances it is not clear if the extent to which the movement of funds to cover certain types of program shortfalls has necessarily been greater than is allowable in the absence of MTW. HA officials, however, generally perceive their success in using these recovery uses as a benefit of having funding fungibility authority.

Standard uses. Some HAs used the flexibility of merged assistance to fund services or programs that are allowable absent MTW, but for which additional funding was necessary. It is important to recall that applications to participate in MTW preceded QWHRA, and that some of the changes MTW HAs made, while currently allowed, were not permitted prior to QWHRA. Standard uses mentioned here involve moving funds from one category or program to another, within categories of programs that are authorized absent MTW. In these situations, HAs have consciously decided to spend more money on one program or service by either decreasing funding to another program or service or utilizing “excess” funds realized during the demonstration.

Some HAs used their merged-assistance flexibility to fund additional services for residents, including: providing transportation to job training and social services; hiring a staff resource coordinator to help persons approaching their TANF time limits to become more self-sufficient; and, hiring additional staff for Family Self-Sufficiency programs. These changes were made in an effort to move families toward self-sufficiency through education or employment training.

Other standard uses allowed merged-assistance HAs to address local market conditions or increase voucher utilization in tight housing markets. For example, one HA funded services that would help residents successfully utilize their vouchers in a tight housing market by funding a landlord outreach counselor to recruit and retain landlords. These services included a program to pay landlords for damages, requiring the landlord to agree to accept subsequent voucher households in order to receive a damage claim. The HA also provided counseling services for disabled voucher recipients, from a growing waiting list, to help them locate suitable housing units. And, finally, another HA in a relatively soft housing market chose to upgrade its public housing stock by installing air conditioners, so that it could better compete in the local housing market and increase its occupancy rate.

Officials at merged-assistance HAs identified these uses as benefits of their funding fungibility authority. Although it seems clear that many of these uses could have occurred in the absence of MTW and merged assistance, these officials assert that they would likely not have occurred, in fact, without MTW.

Development uses. HAs can add to the affordable housing opportunities within their communities by either developing new (“hard”) units or expanding the number of vouchers (“soft” units). Some of the merged-assistance HAs facilitated the occurrence of both to some extent.

(A) Hard-unit development. As previously discussed, aside from HOPE VI grants, HAs do not receive any subsidy that is explicitly earmarked for development activities—such as the addition of new, affordable housing units either owned directly by the HA or by another entity with support from the HA. While some use of HUD operating subsidy and capital grant funds for this purpose is permissible absent MTW; it rarely occurs because both operating subsidies and capital grants are often funded a few percentage points below estimated costs, and there are backlogs. This further limits the fungibility that is allowable outside of MTW.

Some MTW HAs used their merged assistance funding and flexibility to develop new housing units in conjunction with other organizations and/or other funding sources (e.g., HOPE VI grants, Low-Income Housing Tax Credits, bond financing, housing trust funds, and conventional loans). Two key benefits of merged assistance with respect to development uses have been HA access to voucher reserves and the lack of a need to ask for, and await, HUD approval for financial transactions involving development. Additionally, a HAs' ability to show other investors or lenders their merged-assistance portfolio, instead of annual subsidies, appears to have improved their ability to leverage additional financing.

To date, voucher reserve funds have been used for development purposes more so than drawing from the three primary funding streams although, at one HA, there was sufficient voucher program funding planned for, and available, to use for development purposes. Those HAs that engaged in development activity did so by using their resources for down payments and providing equity financing. Some HAs used their flexibility for bridge loans, particularly for their HOPE VI development activities. These development deals involved other investors, including area non-profits, local housing trust funds, and private lenders.

Newly developed units cannot be put under ACC and, therefore, must be self-sustaining. To make them so, one HA used project basing to provide assistance in new developments owned by a mirror-image non-profit organization that provides subsidized housing.[80] Another HA partnered with a local affordable housing developer, covered some portion of the down payment, and provided some assistance for a share of the units through project basing. This agreement benefited both the HA and the developer: the HA added to the number of units available for its project-based households, and the developer benefited because these units ensured a stream of residents (and, thus, predictable rental income) for them. The units were financed with high down payments or were in mixed-income buildings, so that they could sustain themselves financially without on-going assistance from the HA.

Under MTW and using merged-assistance authority, HUD waivers were not required in acquiring new units, so HAs were able to respond more quickly and flexibly to market opportunities. Some of the funds that have been used were in-hand and available (especially the lump-sum payment for reserves), which helped prospective funders take the HA more seriously in fast-moving markets. Because they were able to take these actions, officials in these HAs believed they had become key and more active players in their local housing

[80] Project basing involves attaching housing assistance funding to a specific building or housing unit, as opposed to attaching it to a voucher that can be used to rent housing in any eligible housing unit. Project-Based Vouchers are vouchers that a HA has assigned to a specific (usually privately owned) building by signing a contract with the building's owner for a period of up to 10 years. Applicants apply to the HA's waiting list, and are referred to the owner (who screens and selects from among the applicants referred). The owner then signs a lease with the selected tenant. The tenant may not take the voucher and move to another location with assistance. However, if the tenant wishes to move, the HA gives the tenant another voucher when one becomes available. Under normal circumstances, a HA may reserve up to 20 percent of its voucher funding for project-based vouchers. This limit can be waived under MTW, however.

markets. Furthermore, because some of the development had been funded by short-term loans (to be repaid in the life of the MTW demonstration), these HAs had a revolving fund that provided access for further development or other funding uses.

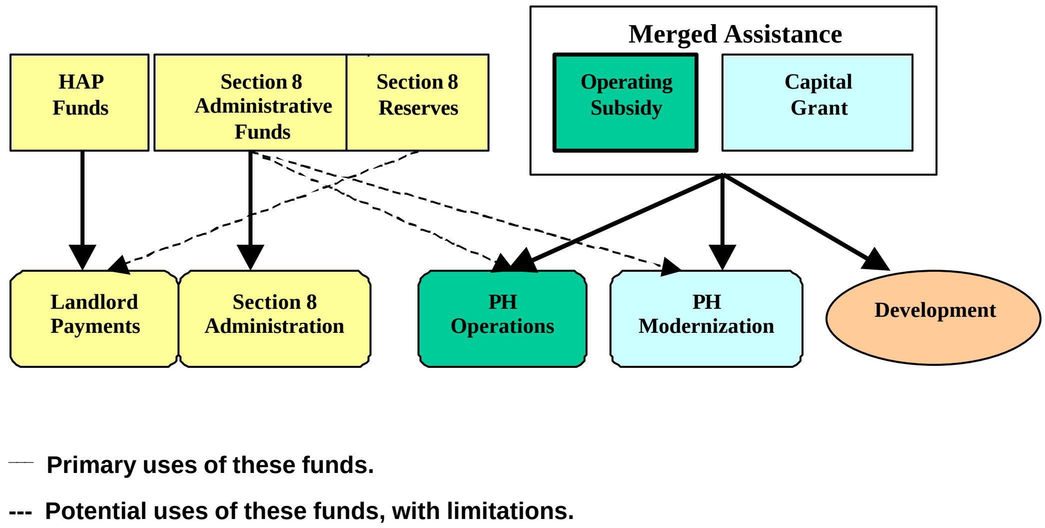
Officials of the three merged-assistance HAs that have done some amount of development to date view their ability to use funds for development as one of the key benefits of merged assistance. Particularly at the beginning of the demonstration, these HAs operated in tight housing markets, so adding to the supply of affordable housing was a key goal for them.

(B) Soft-unit additions. One HA used its MTW waiver authority and merged-assistance funding to add to the number of vouchers it administers. It did so by increasing the proportion of household income that all non-elderly and non-disabled persons pay for rent in both its public housing and tenant-based assistance programs, from 30 percent to 35 percent, and using the additional tenant payment income to the HA to create new vouchers. This was possible because the HA receives a pre-set amount of operating subsidy and HAP funds as part of its merged-assistance, which is not adjusted annually based on experience. Hence, additional income to the HA obtained through increased tenant rent payments does not result in reduced operating subsidy or HAP funding, but remains with the HA. Through October 2003, the HA used those funds to add 69 vouchers, amounting to about seven percent of its total voucher program.

The Current Status of Merged Assistance

Merged assistance involving operating subsidy, capital grants, and voucher assistance, as originally conceived, seems to have worked well for three of the HAs and somewhat less well for two others. The latter have requested, and been granted, amendments to their MTW agreements to allow conversion back to an annual (standard) subsidy calculation for Section 8 tenant-based rental assistance, while continuing to receive public housing operating subsidy and capital grants as merged assistance. Figure 5.4 depicts that arrangement. It involves shifting Section 8 away from a static base year per-unit-cost (adjusted for inflation each year) to an adjustable annual per-unit-cost, as is currently the standard in the Housing Choice Voucher program.

Figure 5.4. Funding Sources and Uses After Section 8 is Separated from Merged Assistance



Conclusion

Officials of the currently active merged-assistance HAs have made limited, yet strategic uses of their funding fungibility authority, and some of them believe that this authority is essential to their ability to respond effectively to local conditions and preferences regarding low-income housing provision. Experiences have varied, however, across these HAs.

Three of the merged-assisted agencies have used some of their funding resources to engage in development activities, which may have gone beyond non-MTW funding fungibility provisions—although this cannot be known with certainty given available information. In some instances, funds were used as revolving resources (i.e., by making short-term loans or down payments that were repaid when other funds were ultimately obtained so they could be re-used for additional development). The in-hand availability of lump-sum reserve payments and, in the case of one HA, of HAP funding resources associated with underutilized tenant-based assistance, provided otherwise unavailable capital for development purposes. Because they could be used in a timely fashion without having to wait for HUD approval, these funds helped to obtain additional funding necessary to engage in development activities and allowed the HAs to become more active housing market players within their communities. And, beyond that, these experiences appear to have been empowering for these HAs.

Aside from development uses, the extent to which these and other merged-assistance HAs used their funding flexibility beyond what is permissible outside of MTW is also unclear, but it appears to be modest. This, however, is in line with what might be expected given the unique constraints associated with both the MTW demonstration, as it was devised and implemented, and the various other contextual factors affecting MTW outlined in this chapter. Whether significant or not, it is clear that HA officials believed the flexibility they possessed with respect to funding choices forced them to be more strategic and deliberative in their activities than was the case when they were required to follow standard program funding rules, guidelines, and directives.

Finally, it cannot be overlooked that some HAs were disadvantaged by merged-assistance arrangements, either because of agreement-related considerations, the negative financial impacts of some of their MTW policies, or unanticipated market, economic, or demographic changes that affected their program expenses and incomes. Two such HAs requested additional funding from HUD to compensate for shortfalls, and two requested different merged-assistance arrangements from the standard that applied at the beginning of the demonstration. The latter requests, to separate Section 8 from merged assistance, suggest a greater financial risk associated with administering tenant-based assistance than administering public housing in a merged-assistance mode where HAs receive a fixed amount of money yet are obligated to serve the same number and mix of households over time.

Chapter 6

SUBSIDY FORMULAS, RENT RULES, AND TIME LIMITS: RETHINKING THE TERMS OF FEDERAL HOUSING ASSISTANCE

Officials of all of the HAs that applied to participate in MTW appeared eager to use the demonstration to experiment with alternatives to the traditional percent-of-income approach for calculating tenant rent contributions in the Public Housing and Section 8 programs (see Exhibit 6.1). They believed that HUD's rules discouraged residents from working or making progress toward economic self-sufficiency because, as their incomes increased, their rent contributions rose as well—and vice versa. In addition, MTW HA personnel argued that the existing system was overly complex and confusing, demoralized residents by requiring them to report changes in income, encouraged some residents to hide income sources, and required time-consuming and tedious verifications by HAs.

This chapter describes the experiences of 12 HAs that used MTW to make changes in public housing rent rules and/or Section 8 subsidy formulas as prominent features of their MTW initiatives. Although other MTW HAs have also made some rent rule or subsidy formula changes, the focus here is on those that made quite dramatic changes or that saw those changes as a major element of their MTW experience. The featured HAs are: Cambridge, Greene, Keene, Lawrence, Lincoln, Massachusetts, Portage, San Antonio, San Diego, San Mateo, Seattle, and Tulare. In addition, a small number of HAs experimented with some form of time limit on the housing assistance they provided; the experiences of these HAs are reviewed in this chapter as well.

Exhibit 6.1: Rent Policies Under QWHRA

Rent procedures. Prior to QHWRA, all residents participating in the Public Housing program paid a rent that was based on their income. QHWRA required that public housing residents be given a choice between paying an income-based rent or a flat rent. In addition, it permanently established a requirement that public housing and voucher families pay at least a HA-established minimum rent.

Total Tenant Payment. The Public Housing and Housing Choice Voucher programs use the term Total Tenant Payment (TTP) to designate the amount paid by a family for a subsidized unit and utilities when the federal formula is used to calculate an income-based rent. TTP is the greater amount of either:

- 30 percent of a family's monthly adjusted income;
- 10 percent of a family's monthly gross income;
- Welfare assistance payments designated for housing costs received from a public agency; or
- A HA established minimum rent.

However, under the Public Housing program, an income-based rent may or may not be calculated using the federal formula. Each HA adopts, and includes in its Admissions and Continued Occupancy Policy (ACOP), a policy that must constitute a reasonable system to determine income-based rents, such as:

- A percentage of income as determined by the HA;
- The same formula used to determine the TTP; or
- Any other reasonable approach as long as the income-based rent does not exceed the TTP.

Utility allowance and reimbursements. Under the Public Housing and Housing Choice Voucher programs, residents are provided a utility allowance for tenant-paid utilities sufficient to cover their expected utility and other service costs over a 12-month period. If utility allowances exceed total tenant payments, the HA pays the excess amount (a utility reimbursement) either to the family or directly to the utility supplier. If the HA elects to pay the utility supplier, it must notify the family of the amount of the utility reimbursement paid to the supplier.

Annual and interim re-examinations/recertifications. If a family pays an income-based rent under the Public Housing program or participates in the Housing Choice Voucher program, HAs must conduct a re-examination/ recertification of the family's income on an annual basis. A family may request an interim re-examination of its income because of any changes since the last determination. HAs must make the interim re-examination within a reasonable time after a family's request. HAs must also adopt policies prescribing when and under what circumstances a family must report changes in family income or composition. HAs may, however, adopt a policy stating that residents are not required to report increases in income or decreases in allowances between annual re-examinations.

Local Philosophy and Approach

Each of the MTW HAs that implemented changes in housing subsidy formulas adopted a unique approach, based on local judgments about the role that scarce rental-assistance resources should be playing and about the behavior of assisted housing residents. These judgments were influenced and sometimes constrained by the local political environment as well as by local housing market conditions. This section describes what HAs did, and why, with respect to: rewarding resident employment and income gains; penalizing unemployment; providing supplemental services and supports to help residents make progress toward self-sufficiency; and 4) establishing time limits on housing assistance.

Rewarding employment and income growth—"carrots." All of the HAs that are experimenting with alternative subsidy formulas have included provisions that let residents keep a larger share of any increases in employment income. HA directors and staff generally believe that the federal approach in place when MTW began, which raises a household's rent contribution when income increases, discouraged residents from seeking and retaining employment or advancing to higher income levels. In addition, some HAs view the standard percent-of-income approach as administratively burdensome and intrusive, because (prior to enactment of QHWRA) it required them to monitor resident employment and income levels and impose rent increases as soon as they became aware that a household's income had increased.[81]

The generosity of the "carrots" offered by MTW HAs to encourage employment and income growth varied considerably, as illustrated in Exhibit 6.2. Four HAs severed the link between resident income levels and rent contributions. The Tulare HA went the farthest, implementing flat public housing rents and Section 8 subsidy contributions. Under this system, residents know how much they have to contribute toward rent, and this amount remains fixed regardless of changes in household income. In Massachusetts, MTW participants also receive a flat subsidy, which is intended to help pay for both housing and support services. The Greene, Keene, and Seattle HAs implemented "stepped rents," in which a resident's rent contribution is set at a flat amount in the first year and, then, increased at predetermined intervals (see Appendix B for details). Officials of the Greene and Keene HAs believed that residents would be encouraged to work and earn more if they were allowed to retain any income gains, but that residents should also feel pressure to raise their incomes in order to be able to afford scheduled rent increases. As discussed further below, the Seattle HA does not require residents to "step up" to the next rent level until they can afford it; so Seattle's approach simply rewards income growth by eliminating rent increases based on income.

[81] Although many PHAs thought this was true it was not—for either public housing or Section 8. PHAs have long had the authority to set their own policies on whether (or when) to conduct interim reexaminations.

Exhibit 6.2: Changes in Rent Rules and Subsidy Formulas that Reward Work and Self-Sufficiency

MTW Site	Limited	↔		Generous
Cambridge		Income exclusions and deductions		
Greene			Stepped rents, increasing $50 each year for 3 years	
Keene			Stepped rents, increasing in years 2 and 4	
Lawrence		Income exclusions and deductions	Ceiling rent	
Lincoln	Rent adjusted only once each year			
Massachusetts				Flat subsidy to be used for both rent and support services
Portage		Income exclusions and deductions; Rent increases lag income increases	Ceiling rent	
San Antonio		Income exclusions and deductions; No rent increase for 18 months after start of employment	Ceiling rent	
San Mateo	Income exclusions and deductions			
Seattle			Stepped rent ceilings, increasing in years 3 and 5	
Tulare				Flat rent or S8 subsidy

Officials at all of the HAs that implemented flat-rent and stepped-rent policies argued that, in addition to rewarding employment and income growth, their systems offered the benefits of administrative simplicity for staff, and understandability and predictability for residents. Moreover, they generally believed that residents had the capacity to raise their incomes in order to make larger rent contributions, and that they benefited from experiencing a rent-setting system that is more like that found in the private market.

The remaining HAs essentially retained income-based subsidy formulas, but exempted some employment income from the calculation and/or delayed rent adjustments. The Lincoln HA took the most modest approach on this dimension, limiting rent increases to one per year at the time of a household's annual recertification (with an added deduction for a portion of health and dental insurance premiums). The Cambridge, Lawrence, Portage, San Antonio, and San Mateo HAs substantially expanded exclusions and deductions from the income used to calculate a household's rent contribution, but otherwise retained the basic income-based approach. For example, the Lawrence HA disregards 10 percent of take-home income and allows a $2,000 annual medical deduction plus a dependent-care cost deduction for households working more than 35 hours per week. These changes were intended to encourage work by allowing residents to keep more of any earned income, without abandoning the notion that a household's rent contribution should be pegged to its income.

In addition to income exclusions and deductions, the Portage and San Antonio HAs implemented provisions that delayed rent changes that would normally be associated with income increases. In San Antonio, residents who are unemployed for a period of three months are granted 18 months with no increase if they get a job and begin earning income. The Portage HA has implemented a more complex scheme in which the rent increases triggered by increased employment income are phased-in in two installments over a five-month period.

Finally, three of the MTW HAs that retained percent-of-income formulas also implemented ceiling rents. This meant that residents whose incomes grow significantly will ultimately switch from a percent-of-income contribution to a flat rent. Officials of the HAs that adopted ceiling rents hope this will not only encourage residents to progress toward higher wages, but that it will also provide an incentive for successful, working residents to remain in public housing longer, serving as role models for other residents and helping to strengthen and stabilize the community.

Penalizing unemployment—"sticks." Along with "carrots" to make work and self-sufficiency more rewarding, all of the MTW HAs that are experimenting with alternative subsidy formulas included provisions intended to discourage families from dropping out of the labor force or reducing their income. In general, HA staff and managers believed the standard percent-of-income method for determining rent contribution to be flawed because a resident who quits a job or works fewer hours is, in effect, "rewarded" with a rent reduction. Many also argued that residents need a vigorous push to enter and remain in the work world. Again, however, the design of these provisions varied tremendously across HAs, as illustrated in Exhibit 6.3. Interestingly, HAs that are most generous with their “carrots” are not always the most stringent with their “sticks.” In other words, HAs have chosen to use positive and negative incentives in differing combinations.

Exhibit 6.3: Changes in Rent Rules and Subsidy Formulas that Penalize Unemployment

MTW Site	Limited			Severe
Cambridge	Minimum rents ($25-50)			
Greene			At least 30 hrs/wk work required	
Keene		Minimum rents ($125)		
Lawrence		Minimum rents ($130-200)	At least 20 hrs/wk work-related activity required	
Lincoln			Minimum rent for non-workers set at 30% of full-time minimum wage income	
Massachusetts				Flat subsidy to be used for both rent and support services
Portage	No rent reduction in cases of TANF sanctions; Minimum income required at admission			
San Antonio		Minimum rent of $45 with annual increases of $10; May not remain if unemployed longer than 90 days		
San Mateo	TANF-eligible S8 families must enter and adhere to county welfare-to-work program			
Seattle	Minimum rent ($50)			
Tulare				Flat rent or S8 subsidy

The Tulare HA's flat rent (or flat Section 8 subsidy), the Massachusetts HA's flat subsidy payment, and the stepped-rent systems adopted by the Greene and Keene HAs are simultaneously generous in their rewards and stringent in their penalties. They require residents to make the same rent contribution regardless of what happens to their income levels. Officials of these HAs argued that residents will be more likely to seek work and less likely to quit their jobs or reduce their hours if they know they have to make pre-determined rent payments. Moreover, some staff and managers suggested that residents generally have sufficient income to pay these rent levels, even though this income is not always fully reported.

In contrast, the Seattle HA's stepped-rent system reduces the required rent contribution for a household whose income drops, even though it holds rent contributions fixed when a household's income rises. More specifically, Seattle residents pay *either* 30 percent of income *or* the applicable stepped-rent level, whichever is *lower*. HA staff indicated that many of their residents are recent immigrants or people with multiple barriers to work, and that these people often lose their jobs or have their hours cut despite their best efforts. Therefore, the HA wanted to implement a subsidy mechanism that would reward work without penalizing households suffering from setbacks.

All of the HAs considered here now require a minimum rent contribution from all households, regardless of how low their incomes fall. Minimum rents range from a low of $25 (for some households in Cambridge) to a high of $200 (for a 4-bedroom unit in Lawrence). The Lincoln HA's minimum rent (which only applies to able-bodied residents who are not working or in an approved self-sufficiency activity) is set at 30 percent of the income a person would earn working 25 hours per week at the minimum wage. Lincoln officials do not describe their rent structure as minimum rent but as calculating a minimum earned income (MEI) amount for able-bodied persons not in the workforce or in a self-sufficiency program. If there is one adult in the household who is able bodied and not working or working less than the equivalent of 25 hours a week at minimum wage, then the amount of earned income in the rent calculation is increased to this minimum amount. The rationale for minimum rents is that residents will be motivated to get or keep jobs if they know they have to make a rent payment regardless, and that able-bodied persons should work to pay for housing costs. In addition, some HA officials contended that virtually all residents have sufficient income (often unreported) to meet minimum rents, and that the discipline of doing so is valuable.

Finally, in addition to rent incentives, several HAs require residents to work or engage in some kind of learning/training activity. The Lawrence HA requires all adult residents to work or attend school or training for at least 20 hours per week. The Portage HA requires residents to meet a minimum income level to be admitted. The San Antonio HA prohibits residents from going without employment for more than 90 days. And the San Mateo HA requires all TANF-eligible Section 8 recipients to enter and adhere to the county's welfare-to-work program.

Supplemental services and supports—a helping hand. Six of the MTW HAs that are experimenting with changes in rent rules and subsidy formulas accompanied these changes with enhanced supportive services for participating residents. Officials of these HAs believe that many families need both financial incentives and a helping hand in order to move toward self-sufficiency. For example, the Lawrence HA has obtained foundation funding to provide on-site employment counseling and skill-building, classes in household budgeting and parenting, and child-care and transportation services for residents who need them. HA management and staff believe that, without these services, it would be unrealistic to expect some residents to be able to meet their new minimum rent and work requirements.

The HAs of Greene, Keene, San Mateo, Delaware, and Massachusetts (Worcester location) make participation in their supportive service programs mandatory for MTW participants. Staff and management expect their financial incentives to motivate residents, but also believe that many households need guidance in order to enter the work world and make meaningful progress toward self-sufficiency. The San Mateo HA simply requires all MTW households to enroll and participate in its Family Self-Sufficiency program. The Keene HA requires all families to work with case managers to set personal goals, create and follow a financial plan, and participate in quarterly goal meetings and skill development activities. Staff run a variety of workshops such as the Financial MGT series, employment retention programs, household management, parenting, family planning, education (GED), in addition to referring residents to local programs that offer childcare, training and education, or drug treatment. And the Greene HA requires residents to participate in classes on life-skills, money management and asset development, home maintenance, and homeownership.

The Worcester, MA program, part of the State of Massachusetts HA's MTW initiative, is unusual because its flat subsidy payment is explicitly designed to help households pay not only for housing, but also for other supports they may need to leave welfare and progress toward self-sufficiency. A case manager provides intensive support to participants, helping them decide what services they need, how to allocate their support budget, and whether to draw down on an accumulating escrow account.

Officials of the remaining MTW HAs do not believe that enhanced supportive services are essential to the success of their subsidy formula changes. Some consider their existing supportive service programs to be sufficient; and expect that residents will be motivated by the new financial carrots and sticks to take advantage of those that they need. In addition, however, some HA officials argue that supportive services are not particularly effective in promoting work and self-sufficiency—that if families are properly motivated by financial and other incentives, many will be able to make progress on their own. Moreover, management and staff of these HAs do not see supportive services as an HA responsibility. In their view, other agencies and organizations in the community have the expertise and obligation to deliver social services, while the HA is responsible for delivering decent and affordable housing.

Temporary or long-term assistance—time limits. Seven of the MTW HAs that are implementing changes in rent rules and subsidy formulas incorporated some form of time limit on the number of years households can remain in public or assisted housing. In addition, the Portage HA limits the number of years households can remain in scattered-site and transitional housing, and the Greene HA limits the number of years households can participate in MTW. Both of these agencies, however, allow households to maintain their assistance after reaching the time limit. Only one HA—Tulare—is actually implementing a strict limit on the number of years families can receive assistance. The issue of time limits is highly controversial and, not surprisingly, the thinking behind the design and implementation of such policies varies dramatically across HAs.

The Cambridge HA limits the number of years households can pay ceiling rents for public housing units to five consecutive years or 10 years overall, based on the view that subsidized housing is a scarce resource and that households who earn enough to pay the ceiling rent should move on after a reasonable amount of time to make room for more needy households on the waiting list. Interestingly, other HAs have taken the opposite view about households paying ceiling rents. Officials want to retain these residents in public housing, both because they believe that stable working families provide good role models but, also, because they believe that private market housing remains out of reach for many low-wage workers and that public housing should be available to meet their needs. The Lincoln HA initially included a three-year ceiling rent time limit in its plan, but abandoned it in order to maintain income to support the public housing program and to avoid disruption of families by forcing them to move to new neighborhoods and schools. Officials in Lincoln did not include an overall time limit on housing assistance in its MTW initiative because they believed households with one or two adults working could be working full-time and not be able to meet rent burdens on the private market.

The Portage and San Diego HAs have implemented time limits for particular developments or types of housing in their inventories. Portage HA participants with a demonstrated commitment to work receive priority in scattered-site housing. Staff members there believe that households prefer scattered-site units because they are located in better neighborhoods and more closely resemble private-market units. Assistance in scattered-site units is limited to three years in order to encourage households to move to homeownership or to rent in the private market. In order to allow formerly homeless residents to take advantage of on-site employment-related services, the Portage HA also limits residence in a transitional development to two years. Staff members believe that two years would be adequate to allow formerly homeless participants to secure employment and move to housing without services.

The Minneapolis HA initiative limits MTW homeownership Section 8 assistance to five years, although officials are attempting to modify the program in response to new Voucher Homeownership regulations. These regulations allow HAs to provide homeownership assistance for up to ten years, although under slightly different rules.

The Greene, Keene, San Mateo, Tulare, Delaware, Vancouver, and San Diego HAs all included absolute time limits as part of the MTW programs although, in Keene and San Mateo, these time limits apply only to those with Section 8 vouchers, not to residents of public housing. Officials of these HAs make several arguments for imposing time limits. First, they believe time limits on housing assistance can be an important motivator for residents: if households know that they will have to pay market rents after some finite number of years, they may be more strongly motivated to get the education and skills they need to earn more, to get and keep a steady job, or to accumulate savings. Second, they argue that because federal housing assistance resources are limited, it is unfair for some households to receive them indefinitely, while others go without. Given the long waiting list of needy households, they believe that households should be given a reasonable amount of time to take advantage of housing assistance, but that assistance should not be permanent. Finally, they contend that adding time limits to housing assistance supports the goals and program structure of welfare reform.

To date, none of these HAs has actually terminated housing assistance for a household hitting its time limit. The Greene and Keene HAs have made exceptions based upon effort or hardship. The San Mateo HA's five-year time limit has a provision for a one-year extension. Officials of the Vancouver and Delaware HAs are developing systems of exemptions to allow households unable to achieve self-sufficiency through no fault of their own to continue receiving assistance. In effect, staff and management of these HAs have found that—while the threat of a time limit may be an effective motivator for some households—circumstances often argue for exceptions and extensions in individual cases. Officials of the Delaware HA have also discovered that enforcing the limit through evictions can significantly disrupt HA operations and potentially increase vacancy rates.

In Tulare, the first MTW households are scheduled to hit their time limits in the coming year (2003-2004), and HA management and staff are prepared to terminate assistance for all participants who do not move on independently after receiving assistance for five years. Although officials of the Tulare HA recognize that some households will face hardship when their assistance is terminated, and that a surge in turnover among public housing residents may create a surge in workload and costs, they are committed to the principle of time limits, and fully expect to enforce them.

Implementation Challenges and Lessons

Many of the MTW HAs moved quickly to implement the changes in subsidy formulas and rent rules that they had proposed in their applications. Others took more time—consulting extensively with residents and other community stakeholders or rethinking their original proposals. All the HAs involved their own staff and at least a few residents in the process of finalizing their new subsidy formulas and rent rules. Some also consulted with the local welfare agency as well as other local partners, such as homeless providers. One HA even attempted to survey the larger community about locally appropriate subsidy formulas and rent rules, but received little response. Several of the HAs modified or adjusted their original approaches based on initial implementation problems—increasing the subsidy level, broadening the hardship policy, simplifying provisions that were administratively complex, or abandoning time limits seen as too short. This section summarizes the challenges HAs faced in implementing changes to subsidy formulas and rent rules, and the varying approaches they took to address these challenges.

Who is covered? All of the HAs have exempted elderly and disabled persons from their MTW programs, because subsidy formula and rent rule changes focus on encouraging people to work and progress toward self-sufficiency. However, some of the HAs implementing stepped rents have made this an option available for elderly and disabled residents who wish to choose it. And officials of a few HAs that have retained percent-of-income formulas would like to enroll their elderly and disabled participants in MTW, with exceptions for medical expenses.

Most HAs have made their changes mandatory for residents who are not elderly or disabled. But some were required by HUD to give all pre-MTW residents and Section 8 recipients a choice to join MTW or continue under the old rent rules and subsidy formulas. For example, the Tulare HA, which is implementing flat rents (or Section 8 subsidies) and time limits, was required to make participation in MTW voluntary for all of its original residents. Moreover, several HAs received special allocations of Section 8 vouchers under HUD's Welfare-to-Work demonstration program, and were prohibited from applying their MTW subsidy formulas to these special-purpose vouchers. Finally, HAs report that HUD now requires them to make the HUD flat-rent option (established under QHWRA) available to all residents, and allow residents to switch between the flat rent and percent-of-income systems.

As a consequence, many of the MTW HAs now find them selves administering several different sets of subsidy formulas and rent rules, rather than a single, simplified set. This has contributed to increased administrative complexity, higher staff training costs and, in some cases, confusion among residents. HA officials who expected to achieve significant administrative streamlining and savings as a by-product of their subsidy formula and rent rule changes are frustrated by the need to maintain multiple systems, and believe that this has undermined some of the benefits they were hoping to realize from MTW.

Explaining changes to staff, residents and the community. One important challenge posed by a change in a subsidy formula and/or rent rule is explaining the new system to the staff members who are responsible for implementing it. As discussed earlier, all of the MTW HAs involved staff in some aspects of the design of their new subsidy formula systems, and managers generally report that staff understand and accept the changes. In the HAs that implemented flat or stepped-rent approaches, managers and staff expected to realize significant benefits from the administrative simplification. And indeed, staff generally indicated that these systems are easier to implement and much more understandable for residents. However, some of the HAs have implemented changes that make their rent rules and subsidy formulas more complex and more difficult for residents to understand. Most residents contacted for this report understood the basics of the MTW rent rules and subsidy formulas, but some clearly did not, and a few believed they were "tricked" into participating in MTW rather than remaining under traditional program rules.

Under MTW, HA staff members at all levels appear to feel more accountable for their programs and rules, and for the results that they generate. They are recognizing that it is easier to say, "HUD requires it," than, "we require it," and some staff found this difficult at the outset. But, in general, HA managers and staff indicate that the need to explain and justify the reasons behind program rules and requirements gives them a strong sense of accountability. Several HA managers indicated that staff have a "renewed sense of purpose" because they control program design instead of just following federal regulations.

None of the HAs has experienced any significant community opposition to its subsidy formula or rent rule changes. Some have worked with potential opponents to design changes that would be acceptable. For example, the Seattle HA invested in quite extensive analysis and consultation with a range of stakeholders to develop its system of stepped rents, which reward households whose incomes rise without penalizing those that experience reductions in employment or earnings. The Cambridge HA initially faced opposition from local housing advocates for its proposal to serve more households with incomes between 40 and 80 percent of the area median. Opponents objected to diverting scarce housing assistance resources away from the most needy households, but HA officials were able to convince these advocates that households with incomes in the 40-to-80 percent of median range in the Cambridge market were facing severe housing hardships and needed assistance. However, officials of several HAs reported that reforms that rewarded work and penalized residents who did not work were strongly supported by their local communities. Finally, others indicated that their communities were generally uninformed and indifferent about public and assisted housing issues.

Financial feasibility. Changes in rent rules and subsidy formulas raise issues of financial feasibility for HAs because they may result in reductions in resident contributions toward rent that are not covered by increases in federal subsidy payments. For MTW HAs that implemented rent rule and subsidy formula changes, HUD established a system for calculating public housing operating subsidy and Section 8 voucher funding levels that essentially "held HUD harmless" for changes in tenant contributions. Therefore, HAs that realized *increases* in tenant contributions (due to minimum rents, for example) saw their total revenues rise, while HAs with *declining* tenant contributions (due to income exclusions or ceiling rents, for example) experienced a decline in total operating revenues.

MTW rent rule changes produced a range of financial outcomes for HAs, from minor losses to moderate gains. In general, HAs that instituted flat rents or substantial minimum rents benefited financially from their MTW changes. Officials of the Keene and Tulare HAs reported using the savings from their stepped-rent/payment system to fund additional Section 8 vouchers, while Keene also used savings to fund the social service component of their program. On the other hand, HAs whose rent rule changes rewarded employment but did not punish unemployment tended to incur greater financial costs from such changes. Officials of the Portage HA, for example, reported losing $15,000 to $20,000 in rent revenues in the first years due to MTW calculations and deductions, but gradually offset this through ceiling rents. Lawrence HA officials reported a financial net gain during the first year of MTW, but losses in the second and third years. They attributed the financial losses to decreases in participant incomes over the period, primarily reflecting a downturn in the local economy.

Most HAs that eliminated interim subsidy calculations report that it saved a substantial amount of staff time. Gathering income documentation, recalculating subsidy levels, and sometimes collecting retroactive rent increases are all seen as tremendously burdensome and time-consuming. None of the HAs have evidence that staffing levels were actually reduced, but several HA managers said that they would have had to increase staffing to handle expanded workload were it not for the savings achieved through simplification of rent rules and/or subsidy formulas. It is important to note, however, that because many HAs ended up with multiple rent and subsidy formula systems (applicable to different categories of residents), they have not been able to realize the full savings in staff time and costs that they had anticipated. Finally, not all of the HAs sought greater simplification or timesavings through their rent reforms. For example, the Portage HA's approach—which phases in rent adjustments when residents experience increases in income—significantly increased administrative complexity and required additional staff time to implement.

Officials of HAs that eliminated the link between household income and rent contribution contended that their new systems reduced fraud by eliminating residents' incentives to under-report their income. Staff of these HAs indicate that many participants were not reporting increases in their incomes anyway, so that eliminating the requirement that they do so automatically reduced fraud. However, none of the HAs have hard data on the extent to which residents were under-reporting employment and income prior to MTW.

Other implementation issues. Officials of most HAs that are implementing changes in rent rules and/or subsidy formulas reported improved staff morale. Reasons include a greater sense of mission and purpose, reduced fraud, improved staff-client relations, and less burdensome paperwork. However, officials of one HA found that policing its new work requirement has hurt employee morale, and several HAs report that the unanticipated need to operate multiple programs (discussed earlier) hurts morale because staff find it difficult to keep track of programs and rules.

Officials of a small number of HAs report that they are now able to serve more families under the voucher program because their average subsidy payment has been reduced. And, officials of most MTW HAs believe that the changes they have made to encourage work have increased the appeal of the voucher program to landlords. However, several HAs have encountered difficulties with voucher portability related to their new subsidy formulas, work requirements, or time limits.[82] For example, the Lawrence and Lincoln HAs decided to prohibit portability among their voucher recipients because they expected families receiving vouchers to ‘port out’ of the jurisdiction in order to avoid the new rent requirements. Having established time limits on its Section 8 vouchers, the Vancouver HA wanted to treat all voucher recipients within the community equally—even if their vouchers were issued by another HA and used in the community under the portability rule. Therefore, Vancouver officials decided to absorb all of the portable vouchers within the community’s jurisdiction, thereby permitting its MTW rules to apply. Because of the relative market attractiveness of the community, the result was the absorption of a much larger-than-anticipated number of new voucher households, at a substantial cost to the HA—which was operating under a merged-assistance agreement. To compensate financially, the HA ultimately had to reduce utilization of its voucher program, at least for some period.

Evidence of Benefits for Participating Families

Officials of all of the HAs expected their new subsidy formulas to yield benefits for participating families, encouraging progress toward self-sufficiency but also offering more understandable and less intrusive assistance. There is some evidence of employment and income gains, but it is difficult to disentangle the impact of MTW from TANF and other factors—such as the strong economic climate that prevailed in most of the MTW communities over much of the early part of the demonstration period. This section will discuss anticipated benefits for participating families and the available evidence to assess the extent to which these benefits have been achieved.

[82] See footnote 74 for a definition of voucher portability.

Increased employment. Almost all of the HAs that are experimenting with changes in rent rules and subsidy formulas reported that employment had increased among MTW participants, and several have evidence to support this conclusion (see Exhibit 6.4). HAs have assessed changes in employment in several different ways. Some HA officials reported that job duration had increased, and that the annual recertification process resulted in less quitting. Officials at others, such as the Keene HA, report people working more hours, measured by the percentage of participants in full-time versus part-time employment.

6.4: Evidence of Increased Employment in MTW Sites that Changed Subsidy Formulas

MTW Site	Staff Assessment	Local Data
Keene	Residents who were previously unemployed have gotten jobs.	▪ Full-time employment among Section 8 recipients increased from 47 percent in 1999 to 65 percent in 2001. ▪ 68 percent of Section 8 recipients who were unemployed when they joined the MTW program were employed by April 2001.
Lawrence	More residents are working more continuously, and for more hours.	▪ Number of public housing residents spending less than 20 hrs/wk in work-related activities dropped from 8 in 1999 to 0 in 2001 ▪ Number of Section 8 recipients spending less than 20 hrs/wk in work-related activities dropped from 7 in 1999 to 0 in 2001.
Lincoln	Staff assessment is mixed.	
Portage	More residents are working and retaining jobs.	▪ Share of public housing residents with a majority of income from wages increased from 64 percent in 1999 to 69 percent in 2002.
San Antonio	More residents are working.	
San Diego	Residents are employed.	▪ 16 of 22 MTW participants are employed.
Seattle		▪ Employment rate among public housing residents unchanged (67%) from 2000 to 2002.
Tulare	More residents are working, and for more hours.	▪ Share of MTW participants with majority of income from wages increased from 48 percent in 2000 to 59 percent in 2001

Despite the evidence of employment gains, there seems to be no connection between the type of policy changes that HAs made and the extent of employment increases. In other words, neither the stringency of penalties nor the generosity of rewards appears to have affected reported increases in resident employment. The only change that HAs reporting increased employment have in common is that they all eliminated subsidy adjustments between annual recertifications, which may reduce the incentive for people to quit their jobs between recertifications in order to get a rent reduction. However, it is difficult to conclude that delaying subsidy recalculations accounts for higher employment rates because the subsidy adjustment process works so differently in different HAs. For example, residents of the Lawrence HA were not allowed a downward adjustment in rent due to an income loss between recertifications, with few exceptions. But the Portage HA allowed residents a rent reduction in the event of an income loss at any time during the year. Furthermore, while the Lawrence HA emphasizes “sticks” (such as minimum rents and work requirements) to discourage unemployment, the Portage HA offers “carrots” (such as income deductions) to encourage work. Despite these fundamental differences, staff and management at both HAs believe that their policies have increased employment among MTW participants, and both report increased employment among residents.

Unfortunately, it is not possible to separate the potential impacts of MTW rent incentives from other factors that may be contributed to increased employment among assisted households. At the same time that MTW was initiated, strong economic conditions and TANF work requirements and time limits were also creating strong incentives for low-income households to get and keep jobs. Therefore, it is impossible to determine with any certainty whether or how much the changes in subsidy formulas, rent rules, time limits, supportive services, and other MTW initiatives may have contributed to resident employment.

Increased income. In addition to increased employment, several HAs that implemented changes in subsidy formulas and rent rules reported higher average incomes among MTW participants (see Exhibit 6.5). Again, however, there is no clear relationship between the type of policy change these HAs have made and the extent of increases in average incomes. For example, whereas the Tulare HA uses a combination of time limits and flat rents to penalize unemployment and encourage employment, the Portage HA offers deductions, phased-in rent increases, and transfers to a desirable project to reward good behavior. And the Seattle HA instituted a stepped-rent system but allowed residents to revert to percent-of-income rent contributions if the applicable stepped rents exceeded 30 percent of income. Despite these dramatic differences, all three HAs reported increased incomes among MTW participants.

Exhibit 6.5: Evidence of Increased Resident Incomes in MTW Sites that Changed Subsidy Formulas or Rent Rules

MTW Site	Staff Assessment	Local Data
Cambridge		• There was no change in the share of public housing residents earning 0-50 percent of the Area Median Income (AMI) from 2000 to 2002. • There was a slight increase in the share of Section 8 participants at 0-50 percent of the AMI from 2000 to 2002.
Keene	Median participant incomes increased and there were fewer people reporting no income.	• From 1999 to 2001, the median income of public housing residents increased from $13,482 to $18,044. • From 1999 to 2001, the percentage of resident reporting no income decreased from 8 percent to 0.
Lawrence	Average participant incomes increased.	
Portage	Participant incomes increased.	• From 1998 to 2002, the average income of residents increased from $10,272 to $12,935.
San Antonio	Participant incomes increased.	
Seattle	Participant incomes increased.	• The average income of public housing participants increased from $10,733 in 2001 to $11,213 in 2002. • The average income of Section 8 participants increased from $11,125 in 2001 to $11,289 in 2002.
Tulare	The incomes of MTW participants are rising faster than WtW and non-participants.	• The average income of participants increased from $12,505 in 2000 to $17,678 in 2001.

Like reported employment increases, income increases may be attributable to welfare reform, relatively strong economic conditions, or changes in the composition of assisted households, as well as to changes in subsidy formulas and rent rules. Given the evidence available, there is no way to determine whether or how much impact MTW has had. Moreover, as staff of the Tulare HA pointed out, increases in reported incomes may reflect a greater willingness among residents to report their incomes rather than actual income gains. Staff of the Keene HA similarly concluded that participants are more forthcoming about their incomes now that reporting income has no effect on their rent contributions.

Fairness. Most residents contacted for this report accepted MTW and believed it to be fair—because it meant that households living in the same kind of unit paid the same rent, and because able-bodied people should be expected to work. HAs that have instituted policies designed to penalize people for unemployment are more likely than other HAs to report effects of their policies on resident perceptions of fairness. However, the nature of this effect, positive or negative, and the rationale for the change, varies with the type of penalty that the HA has put into place. For example, residents in HAs with flat- or stepped-rent systems generally believe that their new system improves on fairness by requiring that households living in the same kind of unit pay the same rent, and also by preventing people from receiving a rent reduction for working less. Officials of a HA that instituted a work requirement also reported that residents consider the system more fair under MTW, because they believe that able-bodied people should work.

Some residents of the Tulare HA expressed reservations about time limits—especially for people with extenuating circumstances, such as a disabled family member. These residents suggested that time-limiting assistance is unfair in cases where the resident cannot be expected to work. Residents in HAs that have instituted social service participation requirements were more likely to see the MTW changes as unfair. For example, although all of the participants interviewed for this report in Keene agreed that they should have to work and pay rent, a few have complained to the HA that requirements such as mandatory participation in workshops are unfair and unreasonable. A few residents of the Lawrence HA also objected to local MTW requirements; they did not think they should have to fulfill a work requirement as long as they were paying their rent.

Staff in several HAs with mandatory case management also noted that some residents find their programs intrusive, based on the requirement that participants meet regularly with a case manager to assess progress toward individual educational, financial, or personal goals. For example, case managers sometimes ask people to talk about personal issues such as alcoholism or drug use in the context of overcoming barriers to employment. Some residents feel uncomfortable receiving this type of counseling from the agency responsible for administering their housing assistance.

Other resident benefits. A few HAs have documented increased savings, at least for some of their participants. Two HAs that reported such savings designed their programs for tenants to automatically save money as a reward for increased income and/or employment. For example, the Seattle HA sets aside 30 percent of any rent over $350 for public housing households with income from employment in a Tenant Trust Account. Residents can use the funds to pay for job-related educational expenses, rent or medical expenses in an emergency, a down payment on a home, the first and last month's rent in the private market, or to start a business. As of August 2002, there were 331 accounts. The San Antonio HA diverts to escrow any rent increases for the previously unemployed, after an 18-month grace period, and annual increases for those paying the minimum rent. These funds may be used for resident needs including education, transportation, or homeownership purposes.

Most HAs have continued their Family Self Sufficiency (FSS)[83] programs during MTW, although the Tulare HA eliminated it on the basis that residents should be responsible for their own savings. Most HA officials believed that their programs would allow residents to save more of their income than under a percent-of-income system by limiting increases in rent due to increased income. Again, HA officials chose several methods for limiting rent increases, including employment deductions, flat rents, and maximum rents.

Most HAs officials also argued that their program changes have given residents a sense of achievement and self-respect. Those HA's using penalties, either through flat or stepped-rent systems or through work requirements, are especially likely to have emphasized the personal benefits of their systems for residents. However, they used different rationales to explain this idea. Those using flat or stepped-rent systems said that residents' sense of self-respect has improved, in part because they no longer have to report income changes—a process that many residents find intrusive. The HA with a work requirement, on the other hand, believes that people have gained a sense of achievement from working more and moving toward self-sufficiency. One HA with a significantly increased social service participation requirement reported that its program has contributed to residents' sense of achievement by helping them set and achieve personal goals.

Evidence of Hardship for Participating Families

Critics of the subsidy formulas being tested under MTW raise concerns about potential hardships for vulnerable families. Most HAs created protections against severe hardship, but even in those that did not, there is little evidence of extensive hardship. However, most of the programs discussed here raised rents for the lowest income residents, so that more households are now paying more than 30 percent of income for their housing costs. This section assesses the available evidence on adverse effects of subsidy formula changes on participating families.

[83] Section 554 of the National Affordable Housing Act established FSS in 1990. It encourages HAs to develop local strategies for helping assisted families obtain employment that will lead to economic independence and self-sufficiency. Services provided, referred, or coordinated under FSS can include childcare, transportation, education, job training and counseling, substance abuse treatment and counseling, household skill training, and homeownership counseling.

High rent-to-income ratios. The traditional percent-of-rent system was designed to ensure that assisted households paid no more than 30 percent of income for housing, on the theory that higher housing cost burdens are unaffordable. Exhibit 6.6 summarizes the available evidence on rent-to-income ratios among MTW participants. Officials of three HAs reported that average rent-to-income ratios were lower under MTW than previously. There seems to be no connection between the types of policy changes these HAs made and rent-to-income ratios. Two of the HAs (Keene and Tulare) instituted rents that were not dependent on income.

Exhibit 6.6: Evidence of Changes in Housing Cost Burdens in MTW Sites that Changed Subsidy Formulas or Rent Rules

MTW Site	Staff Assessment	Local Data
Cambridge		• In 2002, there were 49 (of 1,787) households at the minimum rent and 188 households at the ceiling rent.
Keene	The average rent burden of participants decreased.	• From 1999 to 2001, the percentage of participants paying less than 20 percent of their incomes for rent increased from 18 percent to 27 percent. • Safety Net protects residents from paying exceedingly high rent burdens.
Lawrence	The average rent burden decreased and those with higher rent burdens have zero income.	• From 1999 to 2002, the percentage of public housing participants paying less than the standard formula increased from 68 percent to 88 percent. • From 1999 to 2002, the percentage of Section 8 participants paying less than the standard formula increased from 44 percent to 79 percent.
Tulare	There has been no large negative effect on average rent burdens.	• In 2000, the median rent burden of participants was 24 percent of income. • In 2002, 86 percent of participants paid less than 30 percent of their income to rent.

Officials of those agencies believed that the flat rents were lower, on average, than what residents had paid under the previous system. In the case of the Tulare HA, rent-to-income ratios were kept lower given that the HA had to give current residents a choice about the MTW system. Staff reported that the residents who did not choose MTW would have paid a higher rent, specifically a rent higher than 30 percent of their income, under MTW. The filtering out of residents with lower incomes reduced the average rent burden of the MTW population. Officials of the Lawrence HA maintained the percent-of-income system, but added minimum and maximum rents, and deductions for employment. Staff believed that the deductions, in particular, helped to keep rent-to-income ratios low.

Despite lower *average* cost burdens under MTW, the lowest-income households have higher cost burdens, while those at higher incomes have lower burdens. In a percentage-of-income rent system, the lowest-income households could be paying very little or no rent. In a flat rent/stepped rent system, depending on where the rent is set, the lowest-income households pay more than they would under a percentage-of-income system. The opposite is true for higher-income households. In order for average rent-to-income ratios to be lower under MTW, the decreases in rent paid by higher-income households must exceed the increases in rent paid by lower-income households. Systems involving minimum and maximum rents have the same effect. A minimum rent forces the lowest-income households to pay more than 30 percent of their income for rent, while a maximum rent allows higher-income households to pay less than 30 percent of their income for rent.

Evictions and loss of assistance. Evidence in this area is very weak. As many HA staff noted, overall eviction rates may or may not reflect MTW changes, depending on the nature of the eviction. Only increased evictions for non-payment of rent or program violations such as non-compliance with work/social service requirements would indicate that an MTW change, in particular, was negatively affecting participants. Furthermore, in many HAs, staff members argue that eviction for non-payment does not necessarily reflect inability to pay. For example, staff of the Lawrence HA reported occasionally evicting multiple residents prior to MTW for failing to pay a rent of $5. In these cases, staff thought that the resident had the $5 but either did not take such a low rent seriously enough (that is, did not think the HA would evict for $5), or that the resident was just procrastinating. Line staff in many HAs stated that some residents purchased non-essential items, such as alcohol, instead of paying their rent, demonstrating that the non-payment reflected choice and not inability to pay. Therefore it is possible that a HA's eviction rate would go up over time for reasons unrelated to MTW, such as more frequent property destruction or lease violations, and even evictions for non-payment of rent may not reflect an inability to pay.

In general HA officials reported no increase in evictions, although one HA adjusted its hardship policy to avoid evictions. As initially designed, the Lawrence HA's hardship policy took 30 days to take effect. This meant that even when granted a hardship, residents still had to pay the rent for the month prior to the hardship. Staff members reported that, "people were getting into trouble"[84] in the event of a rapid income loss, and that they were not saving adequately for emergencies. To prevent evictions for non-payment, the HA altered its rent policy to allow for more rapid rent reductions. Additionally, staff in some HAs with minimum rents higher than $50

---

[84] IBM Business Consulting Services, *Moving to Work Evaluation Field Notebook*, December 2002, p.3.

believed that some people were having trouble meeting this minimum. Staff of the Tulare HA expected eviction rates to increase as residents hit the five-year time limit.

Most, but not all, HAs have provisions for waiving minimum rents, time limits, or other requirements in cases of severe hardship. HAs approached their hardship policies differently depending on their overall approach to MTW. For example, the hardship policy in Keene, was designed to reinforce personal responsibility and a strong work ethic by requiring work for the HA or a repayment plan. Another HA that sought to penalize unemployment, Tulare, granted only one hardship over the course of the demonstration. Although this may indicate that Tulare's rents were set at an attainable level for residents, it may also indicate that staff had been effective in convincing residents that the HA would not accommodate people who failed to work, notwithstanding its hardship policy. HAs that favored rewards rather than penalties tended to have somewhat more lenient hardship policies. The Lawrence HA allowed residents to receive a rent reduction, although never below the minimum, in cases where income loss was not the resident's fault. Lawrence officials also reported a significant number of hardships, about 15 percent of the MTW population, in one year. The Portage HA did not institute a hardship policy because it allowed for downward rental adjustments in the event of income loss, and did not require a minimum rent.

The actual number of hardship waivers was generally quite small. Regardless of local philosophy, HAs did not have to grant large numbers of hardship exemptions in order to allow residents to comply with their MTW rules. This was somewhat surprising, especially in HA's with flat/stepped rent systems that may force very low-income people to pay significantly more rent than they had under percent-of-income rules. One possible explanation for the low number of waivers is that residents were deterred from applying for hardships given the values communicated by the HA to residents. That is, residents in an HA that took a more hard-line approach to unemployment may have been less likely to apply for a waiver simply because they thought there was little chance of being granted one. In such a case however, increased hardship would likely be reflected in a higher number of evictions for non-payment of rent. As mentioned, this did not appear to be the case. Another, more optimistic explanation is that HA policies, welfare policies, and/or improvements in the economic opportunities for low-income people were effective in motivating MTW participants to work, precluding the need for hardship waivers.

Chapter 7

ADMINISTRATIVE CHANGES: RETHINKING THE OPERATION AND MANAGEMENT OF FEDERAL HOUSING ASSISTANCE

Many HAs used MTW to alter specific HUD procedural and reporting requirements. Officials of those agencies believed that certain requirements were redundant, unresponsive to local housing markets, and inconsistent with local needs. They also contended that particular HUD-required procedures were unnecessarily complex and required time-consuming and tedious verifications. These officials thought that by altering procedures they could make better use of scarce staff time and resources, making their operations more efficient and yielding cost savings.

This chapter details administrative changes implemented by HAs that did not occur in conjunction with, or as a result of, policy changes instituted under MTW. The latter involve alteration of administrative processes, such as income recertification, in order to implement a flat rents policy (as discussed in Chapter 6). The administrative changes covered here involve recertification of elderly households, merged waiting lists, alterations of procurement and investment rules, revised utility charges, modified inspections standards, modified lease requirements, exemptions from HUD's Public Housing Assessment System (PHAS) and Section Eight Management Assessment Program (SEMAP), and alterations of reporting.

Less Frequent Income Recertification for Elderly and Disabled Persons

To reduce the amount of paperwork and staff time associated with income recertification for elderly or disabled persons, several HAs either proposed or implemented a change from the normal annual certification process.[85] Premised on the notion that the incomes of elderly and disabled persons are primarily comprised of fixed payments, which are fairly stable over time, staff of these HAs generally considered recertifications every year to be redundant. Moreover, as one Executive Director noted for his HA, the staff costs associated with recertification activities far exceed the rent increases received by the HA from annual increases in Social Security income.[86]

Seattle implemented a once-every-three-year recertification procedure, although some HA staff express concern that elderly residents might not be able to maintain accurate paperwork on a multi-year basis. While the Keene HA did not implement their proposed multi-year recertification procedures, the Cambridge HA initially did but later reverted to the practice of annual recertifications. HA officials recognized that having a formal process that required contact with elderly residents was good for residents, and was appreciated. They reasoned that the medical expenses of elderly persons fluctuated enough to warrant a process that could help those experiencing significant medical costs in a given year. Property managers responsible for doing recertifications also considered them to be a good idea since they were the only times some of them had personal contact with their residents. The Vancouver HA originally proposed having multi-year instead of annual recertifications, but its negotiated agreement with HUD required annual recertifications—with verification of income required every other year. HA officials concluded that this would not achieve sufficient cost savings and, consequently, never implemented such a procedure.

Merged Waiting Lists for Public Housing and Section 8

Two HAs, Delaware and Lawrence, merged their waiting lists for public housing and Section 8. Officials believed the separation of the waiting lists was confusing for recipients and required too many staff doing the same job (two applications specialists, one in public housing and one in Section 8). Both HAs sought to simplify and reduce the staff time associated with the application process through this change, and also to make the system easier to understand for residents. Staff in Lawrence concluded that the new process decreased the time required to fill public housing units, thus reducing the revenue loss incurred by vacancies. Combining the applications positions allowed them to hire another inspector, a recertification specialist, and to dedicate one staff member completely to applications.

---

[85] This requires residents to submit information to the HA detailing their incomes, and the HA to verify this information.

[86] *NAHRO Monitor,* July 15, 2003, p. 10.

However, the waiting list mergers also produced negative consequences for the HAs and residents. First, merging the lists reduced choice for residents given that unit assignments were based on availability and not preference. In Lawrence, merging the waiting lists required them to standardize their screening criteria for residents in public housing and Section 8. In order to create one set of criteria, they weakened their standards in public housing and increased their standards for Section 8. The weaker standards in public housing resulted in more lease problems and damage, costing the HA more in maintenance and lease counseling. Officials of the Delaware HA found that more residents refused offers under this system, and that the some of the savings gained by simplification were offset by the cost of making more offers. Neither HA, however, had hard data to support their assessments of the relative costs and benefits of merged waitlists.

Use of State/Local, Rather than Federal, Procurement and Investment Rules

Due to increased costs in small capital improvement projects, the Portland HA requested a waiver of the $100,000 limit for agency informal procurement. Agency officials estimated that this change would allow them to save $50,000 per year in advertising and administrative costs. HUD, however, turned down the waiver on the basis that the limit is set by statute and not the 1937 Housing Act.

The Seattle Housing Authority sought to replace the federal limitations on total development costs (TDCs), with locally created limits that would be approved by HUD in order to better reflect local market costs. They have found however, that to date federal cost limits did not inhibit mixed finance development projects, and therefore have not implemented that provision of the agreement. If federal TDCs become an issue, SHA may pursue this in the future.

To increase the amount of interest generated from investment by the Portland HA, officials adopted State of Oregon Investment Policies. However, they observed that this change failed to generate any significant additional interest income.

Miscellaneous Other Streamlining and Paperwork Reduction Procedures

The Portland HA discontinued charging residents for excess utility consumption on the basis that the costs associated with this process exceeded the amount recovered for usage. The associated costs included reading and recording meter amounts, billing, collections, and enforcement of payment. HA officials estimated a modest savings of approximately $2,000 by eliminating this charge.

Use of Local Inspection Standards or Protocols

Four HAs proposed to simplify their inspection policies in order to reduce the amount of staff time dedicated to inspections. Simplification took several forms, including: allowing landlords to self-certify Housing Quality Standards (HQS), particularly those with a record of high performance; accepting local certifications in lieu of HQS inspections; and extending the inspection period from one to two or three years—especially for landlords with a small number of Section 8 units. Two of the four HAs, Keene and Portage, actually implemented changes to their inspection procedures.

The Portage HA changed its inspection procedures to allow owners of multifamily units to submit verification that they had passed the City of Kent housing code inspection in lieu of HQS. Officials believed that it was a waste of staff time as well as landlord time to conduct what was essentially the same inspection twice in one year. Because Kent inspections took place every year, PMHA waived annual inspections and instead, inspected Kent multifamily units using HQS every other year. HA officials estimated that this change allowed them to do 98 fewer inspections per year, amounting to a moderate reduction in staff time. The Portage HA also originally proposed to limit inspections to every other year, but staff found that property owners preferred more frequent inspections because it allowed them to incur the costs of fixing units more gradually.

Similarly, in order to reduce staff time spent on inspections, the Keene HA allowed landlords to self-certify HQS compliance. Landlord reactions to self-certification were mixed. Some found self-certification more convenient because they could do the inspection on their own time and at their own pace. Others preferred having the HA conduct the inspections because it saved the landlord time and effort. As of October 2003, close to 50 percent of landlords were self-certifying their rental units.

The Portland HA initially proposed to limit inspections of properties with up to five percent of their tenants as Section 8 recipients to three-year intervals. Due to limited interest on the part of landlords, the HA dropped the proposed change. The agency additionally attempted to simplify its inspection process by consolidating the annual and single-room occupancy (SRO) building inspections in Section 8. HA officials found that because this change reduced the number of 'no shows' (landlords who did not bother to show up for recertification inspections), and increased first inspection passes, they were able to save the equivalent of $90,000 in staff positions.

After inspecting all public housing units in FY2002, the Seattle HA divided its units into those requiring a limited inspection (e.g., fire alarms, sprinklers, and fire extinguishers) and those requiring a comprehensive inspection. Units were assigned to the comprehensive inspection category if they had turned over or had a low HUD Real Estate Assessment Center

(REAC) physical inspection score, or if such an inspection had been requested by the property manager.

Flexibility to Adopt Local Lease Requirements (Apart from Self Sufficiency/Time Limits)

The Portland HA streamlined its procedures for transfers in Section 8 by shifting from a one-year lease requirement to using Oregon State Tenant/Landlord law to determine rental contract length. Under the new requirements, tenants provide the HA with 30-days notice of contract termination, giving staff members ample opportunity to discontinue payments in a timely fashion. HA officials estimated a $20,000 savings resulting from reductions in overpayments to landlords.

Exemption from PHMAP, PHAS, and SEMAP Reporting

Six HAs proposed to discontinue reporting on HUD's PHMAP or SEMAP indicators either because they were inconsistent with the activities proposed to be undertaken under MTW or in order to reduce costs. One of them, High Point, ultimately did not include this stipulation in its MTW agreement, but the others did and, thereafter, discontinued reporting. In addition, the Keene HA received a limited waiver with respect to MTW annual reporting requirements and PHAS. Their primary motivation in applying for the waiver was to free up staff time needed to administer their MTW initiative.

Of the HAs that discontinued PHMAP or SEMAP reporting, only the Portland HA formally analyzed the cost impacts of this change, concluding that submitting Annual MTW Plans and Reports to HUD in lieu of PHAS (successor to PHMAP) and SEMAP resulted in no cost savings. However, HA officials believed the change to be quite helpful because operational, accounting, and IT staff time did not need to be spent "working and re-working the 'numbers' for the purpose of HUD regulatory reporting." Staff time spent on preparing Annual MTW Plans and Reports absorbed a portion of the time savings associated with not reporting through PHAS and SEMAP, with the remainder of the time savings redirected toward supporting self-sufficiency opportunities and housing choice goals.[87]

Annual Reporting Requirements

All merged assistance HAs replaced HUD-required five-year plans and annual plans with Annual MTW Plans and Reports. At inception, Portland HA officials expected this change to

---

[87] Housing Authority of Portland, *An Analysis of the Impact of Moving To Work at the Housing Authority of Portland, April 1, 1999–March 31, 2002*, September 2002, p. 7.

save staff time. Their experience, however, was that any staff time saved by using the new process was offset by the time required to “educate and re-educate HUD staff on the Moving to Work agreement” and the time spent by HA planning and accounting staff ensuring that they were funded property by HUD under the terms of their MTW agreement.”[88] Apart from cost savings, however, personnel at most merged assistance HAs generally believed that that even though MTW Plans and Reports took a good deal of time to complete, the process of gathering information and preparing the reports was an exercise that provided officials and staff with a good opportunity to do strategic planning, which benefited their HAs.

Implementation Challenges and Lessons

Overall, far fewer HAs implemented changes to their administrative procedures than had originally proposed to do so. In a few cases, HUD refused a HA’s request, precluding implementation. In other instances, HAs received waivers but discovered, upon evaluating the proposed changes, that they would either be unproductive or unnecessary. For the most part, while HAs have not make administrative changes the central focus of their MTW initiatives, they contend, nonetheless, that such changes are crucial to improving cost effectiveness in federal expenditures.

Benefits. Most MTW HA officials reported that their administrative changes produced small-scale improvements in efficiency and cost savings. For example, some of them believed such alterations saved staff time, enabling them to divert resources to fulfill other MTW goals. They saved staff time in several ways, including reducing the frequency of recertification for the elderly, merging their Section 8 and public housing waiting lists, discontinuing charges for excess utility consumption, simplifying their inspection policies, and submitting Annual MTW Reports to HUD in place of PHAS and SEMAP. In many cases changes did not result in real time (or cost) savings, but did result in more rational or meaningful use of staff time—as judged by HA officials. HAs that attempted to reduce paperwork for their staff members, residents, or landlords believed that the reduction improved staff morale and resident/landlord satisfaction with the HA. Officials of the Portland HA estimated saving of $20,000 in overpayments to landlords by adopting local lease requirements. Finally, HAs that changed their reporting procedures and formats discovered that the information compiled during their new reporting process proved useful for strategic planning purposes. In all but a few instances, however, HAs could not provide data to support their claims of savings or efficiencies.

Costs. Some of the administrative changes made by HAs introduced new problems or consequences for residents and staff. HA officials who reduced the frequency of recertification

---

[88] *Ibid,* pp. 6-7.

for the elderly, for example, noted that some elderly persons missed the personal contact and attention received during more frequent meetings with HA staff. Staff members of one HA also observed that less frequent recertifications were, in fact, more time-consuming under the new system because some elderly people had difficulty keeping track of several years of paperwork. Officials of HAs that merged their Section 8 and public housing waiting lists noted that this change, in effect, reduced choice for residents regarding type and location of housing. An official of one HA further noted that more residents refused their offer when given a more narrow choice, causing the agency to reallocate staff time to making housing offers. A HA that allowed landlords to self-certify compliance with HQS reported that some landlords actually found the process more time consuming because it required them, not HA staff, to carry out the certification. Finally, staff at some HAs that implemented non-standard reporting procedures stated that any time saved by that change was spent explaining the new procedure to HUD staff in order to ensure that they would be considered to be in compliance. Again, most HAs did not provide data to support their claims of increased costs.

Chapter 8

CONCLUSION:
THE LIMITS, LESSONS, AND IMPLICATIONS OF MTW

Expectations have been incredibly high regarding what is likely to result from MTW deregulation and merged assistance and, therefore, what can be learned from a review of the demonstration. Those interested in MTW's outcomes, however, are not of one mind. Some expect the demonstration to provide definitive support for deregulation—showcasing extensive and successful innovation and highlighting HA, community, and resident benefits resulting from the lifting of federal rules. Others expect deregulation to result in untoward consequences—undesirable change in the delivery, quality, or targeting of housing assistance and supportive services.

This chapter briefly summarizes what has been learned to date from MTW and considers some broad implications of those results. To place these findings in context, it is first useful to recall the structure and limits of the MTW demonstration. Keeping in mind what MTW is, and what it is not, provides a proper basis for interpreting the demonstration's experiences.

The Structure and Limits of MTW

MTW is not a federally proscribed, alternative approach to providing low-income housing assistance that can be compared to the standard approach. It is, instead, a collection of local activities, policies, or strategies that is distinctive to each participating HA. Included as part of each agency's initiative are one or more waivers of 1937 Act provisions and, sometimes, activities, policies, or strategies that are otherwise doable without statutory or regulatory waivers. Since there is considerable variation from HA to HA with respect to motivations for participating in MTW, waivers requested, and activities attempted, there are differences in how far reaching each agency's initiative is. Some are attempting basic, systemic change, while others are engaging in narrower, more circumscribed MTW modifications to their programs or operations.

From a research perspective, it may not be possible to separate out the individual components of any agency's MTW initiative to establish the independent effects of each. Likewise, because they are organized differently, it is problematic to aggregate experiences across HAs to evaluate the collective results of MTW. Indeed, MTW was not designed from the very beginning to support measurement of its impacts. Appropriate controls were not built in (with respect to selection of participating HAs or design of alternative policies or procedures) for observing the effects of rule or procedural changes. In research jargon, there is no 'counter factual' against which to assess the consequences of MTW 'treatments'. To complicate matters further, federal welfare reform and QWHRA-initiated public housing reform occurred at about the same time as MTW, adding to the difficulty of attributing changes that may be observed in, say, tenant demography, to waivers of federal rules under MTW.

Assessing broader devolutionary effects is also complicated by the fact that MTW does not involve total or complete federal deregulation of public housing. For one thing, MTW waivers are limited to provisions of the 1937 Housing Act, as amended. This is important because some of the regulations constraining HAs emanate from other federal statutes. For another, MTW implementation required that HAs make individual, waiver-by-waiver requests to HUD, in contrast to HUD providing blanket authority to HAs to design their own programs. HUD considered each waiver request to determine if it violated any non-1937 Act federal requirements—such as those pertaining to fair housing, equal opportunity, procurement, or labor regulations—or if it violated the terms of the MTW demonstration. While this review process was neither arbitrary nor capricious, it nevertheless had the effect of communicating to some HA officials that deregulation was restricted to that which HUD would approve.

A further limitation on the extent of deregulation is contained in the appropriations language establishing MTW. It required HAs to continue to assist substantially the same total number of eligible low-income families as would have been served had they not participated in MTW, and to maintain a comparable mix of families (by family size) as would otherwise have been served. It also required that housing units assisted under the demonstration meet housing quality standards established or approved by HUD. Done out of concern that lifting federal regulations might result in service to fewer or different types of households or poorer quality housing, these requirements nonetheless had the effect of limiting HA flexibility as well as rendering it impossible to determine if devolution leads to changes in the quantity or quality of assistance provided.

Also limiting what can be learned from MTW is the fact that the demonstration was designed to be temporary, which had a dampening effect on what was attempted by some HAs. Many HA officials (although, interestingly, not all of them) expected to have to return to non-

MTW status at some point. This generally led to caution with respect to the changes or innovations they attempted. In some instances, certain types of changes were not even considered because of what would likely be involved in having to ‘go back.’

With respect to merged funding assistance—for those HAs that opted for it—MTW is not a prototypical block grant, as indicated in Chapter 5. More specifically, it maintains separate funding streams, but authorizes HAs to use them for interchangeable purposes. As such, it provides only limited insight into the likely behavioral and outcome effects of shifting funding to a block grant system.

Finally, it is also important to remember that MTW is not yet over, as of the time of this report. Although originally intended to last only three years, it has been extended such that most of the original HAs have at least two more years of participation before the demonstration is concluded for them. Beyond that, some of the newly enrolled HAs have yet to begin at all. Hence, long-term or end results are not yet fully known or knowable at this time. For this and the other reasons identified above, it is appropriate to view MTW results to date, and the lessons to be drawn from these results, as interim and suggestive, rather than final and conclusive.

What has been Learned?

The legislation authorizing MTW lays out three basic goals that the demonstration was intended to advance. HUD and HAs were directed to use the flexibility and fungibility of MTW to: promote work and self-sufficiency among public housing residents and Section 8 recipients; expand housing choices for low-income families and individuals; and achieve administrative efficiencies and cost savings. The original cohort of HAs selected to participate in MTW all gave differing levels of attention and importance to each of these goals. But, taken together, what does their experience to date teach us about the potential to achieve these goals through regulatory reform or fungibility of subsidy streams?

Promoting work and self-sufficiency. For many, though not all of the original MTW HAs, promoting work and progress toward self-sufficiency among able-bodied residents was a central goal. In particular, HAs that did not opt for funding fungibility, but instead focused their efforts on changes in rent rules and/or subsidy formulas, were primarily interested in increasing employment and self-sufficiency among assisted households. As discussed in Chapter 6, these HAs argue that when rents are calculated as a percent of income, they actually discourage residents from gaining employment, working more hours, or earning more income. Therefore, they experimented with a very wide range of alternative approaches, including some that completely detached the determination of rents from resident incomes.

Unfortunately, given the design of MTW and the lack of consistent data on resident characteristics, incomes, and rent payments, there is no way to determine with certainty whether individual programs have achieved the goal of work and self-sufficiency. HA officials at many HAs report that employment and income levels have risen quite substantially during the period of MTW implementation. And HA staff and managers (who have regular contact with residents) are generally convinced that their reforms have encouraged residents to seek work, work more hours, and pursue opportunities to increase their incomes. However, over the same time period, the labor market in most MTW HAs was relatively strong and welfare reform was being implemented nationwide, making it impossible to determine statistically whether MTW reforms had an independent effect.

Moreover, there is no clear relationship between the local approach to rent rule changes and the magnitude of reported changes on employment and income levels. In other words, MTW HAs that continued to set rents on the basis of income, making only modest changes in the size or timing of rent adjustments, were just as likely to report substantial employment gains as HAs that completely detached rents from incomes, or that implemented intensive programs of case management and support services. This could mean that the changes in rent rules and subsidy formulas really had no effect (i.e., that TANF and the economy explain the reported employment gains). But it could also mean that many MTW HA officials reoriented their programs and began communicating a clear and consistent message to their staff and residents—that employment is expected and housing assistance is intended to help families move toward greater economic self-sufficiency—and that this message influenced resident expectations and behavior, regardless of the specific details of the new rent rules or subsidy calculations.

Expanding housing choices. Advocates of local flexibility and innovation argue that, with greater independence, HAs can do a better job of developing and offering locally appropriate housing options, providing residents with more and better choices. The goal of expanding assisted housing choices has been particularly important for several of the MTW HAs that received merged assistance and used it to help finance the acquisition or production of more assisted housing units.

The HAs of Cambridge, Seattle, and Portland, in particular, have used their funding fungibility authority to produce more affordable housing units. Specifically, one or another of them has increased housing and locational options by (a) financing one-for-one replacement of public housing units demolished under HOPE VI, (b) building more large units suitable for big families, (c) acquiring scattered-site properties that provide greater location choice for residents, and (d) increasing the stock of affordable rental units available for voucher recipients in tight, high-cost market environments. These examples all reflect the potential of skilled and sophisticated HAs to use more flexible funding arrangements creatively, and to respond effectively to local housing needs and market conditions.

In addition, the Cambridge HA shifted somewhat the targeting of its assistance to include slightly higher income levels, based on the fact that "higher low-income" households also had few affordable housing options in the high-priced Cambridge market. Although some local advocates objected on the grounds that housing hardship is most prevalent among the poorest households, the HA made a compelling case that this change was essential in order to offer housing choices to a segment of the low-income community otherwise be unable to obtain affordable housing, given local market conditions.

Although some participating HAs used MTW to expand choices for their residents, the concept of "choice" proved to be a two-edged sword in that other HAs made changes that actually constrained household choices about where to live. Specifically, several HAs merged their waiting lists for public housing and Section 8. This reform was intended to make the application process more efficient for staff and also less burdensome and more understandable for applicants. But it also limits households' ability to choose which form of assistance they want. In addition, some HAs that experimented with changes in the Section 8 subsidy formula decided that they had to restrict portability in order to prevent families from claiming a voucher and then moving to the jurisdiction of another HA that would not enforce the same work requirements or incentives. Thus, allowing local HAs greater regulatory flexibility can result in greater housing choice, it can also result in restricted choice, depending upon a local agency's goals and priorities.

Achieving administrative efficiencies and cost savings. Many of the MTW HAs anticipated that relief from specific procedural and reporting requirements would save significant staff time and resources, making their operations more efficient and yielding cost savings. Some administrative efficiency was expected to be achieved in conjunction with policy changes. For example, HAs that simplified their tenant rent and/or subsidy calculations in order to create stronger work incentives also expected to reduce the staff time required to recertify and verify incomes and calculate rent adjustments. But other cost savings were anticipated to result from narrower administrative changes, such as simplifying the Section 8 inspection process or adopting state (rather than federal) procurement rules.

In many cases, however, HAs did not implement administrative changes that they had planned or proposed. This was due, in part, to the fact that HUD denied some waiver requests, generally on the grounds that they called for changes to requirements outside of the 1937 Housing Act. But, in other cases, HAs ultimately decided that administrative changes they had planned or proposed were actually not worth implementing.

Most HAs reported modest benefits from administrative streamlining—i.e., they were positive, but not as dramatic as some had originally anticipated. In many cases, changes in administrative procedures or reporting did not yield substantial time (or cost) savings, but did result in more rationale or meaningful use of time. For example, many HA staff and managers noted that the annual reporting requirements under MTW are just as time-consuming as were previously required monthly reports, but that the MTW report encourages and supports meaningful planning and strategic thinking. Similarly, officials of several of the HAs that implemented rent reforms found that staff were spending just as much time with residents, but that the relationship had changed from one of auditor or investigator to one of mentor or advocate. As a consequence, staff morale in many MTW HAs improved, and both staff and managers believed they were operating more strategically and with a greater sense of control over their work.

Another potentially important administrative benefit from the simplification of rent rules and subsidy calculations is that tenants were less likely to under-report their incomes, and staff were less likely to miscalculate tenant rent contributions. By definition, programs that detached rent determinations from resident incomes, and that imposed a flat (or stepped) rent based on unit size, achieved the biggest gains in this regard. Although individual MTW HAs did not have systematic data on the incidence of reporting errors, this has been identified nationally as a major weakness of HUD's current rental assistance programs.

Implications

MTW was established "to give public housing agencies and the Secretary of Housing and Urban Development the flexibility to design and test various approaches for providing and administering housing assistance."[89] Therefore, beyond what MTW experimentation has produced with respect to employment and self-sufficiency, housing choice, and administrative efficiency, it is important to know how MTW is altering HA behavior, whether it is contributing to improved relations between HAs and HUD, and how it informs policy discussion regarding whether housing assistance should be primarily under federal or local control.

Has MTW altered HA behavior? A principal contention of supporters of MTW prior to its initiation was that HA deregulation would stimulate innovation and result in more efficient and effective outcomes for communities, HAs, and those whom they serve. While all of the evidence on outcomes is not yet in, there is information at present regarding HA behavior in response to the opportunities that MTW provided to develop local policies and procedures.

[89] 42 USC 1437f, Section 204.

HAs approached their participation in MTW in different ways, although whether this variation is due to the specific structure and implementation of MTW or to deregulation more generally is not clear. What does seem clear, however, is the following relationship: to the extent deregulation was perceived by HA officials to be serious, genuine, and lasting, the opportunity for increased local discretion over policies and procedures seems to have motivated increased HA stocktaking, initiative, and sense of ownership. To the extent to which it was not so perceived, the behavior change appears less. On this score, most participating HAs fall roughly into one of three categories, along a continuum ranging from less to more behavior change.

At one end of the continuum, where there has been least behavioral change associated with MTW, is a cluster of HA officials who are best labeled “doubters.” Such persons believed that deregulation opportunities under MTW were either not sufficiently appealing or long lasting to warrant using the opportunity to make major changes in the way they did business. In several instances, this doubt about MTW opportunities was reinforced by experience: some were either turned down on a proposed waiver, or were disappointed by the way MTW was implemented, or otherwise saw evidence that deregulation boundaries did not go far enough. Some, also, did not object strongly to the federal requirements under which they operated, or felt less need to make policy or procedural changes. And, some simply did not give much consideration to the opportunities that the demonstration provided, for whatever reason. Included as doubters are officials of HAs that have remained in the demonstration from the beginning as well as some who dropped out of the demonstration early on. What these officials have in common is that they tended not to use MTW as a significant change agent, and only marginally modified their programs or operations.

Next on the continuum are HA officials who can be described as ‘cautious movers.’ Caution resulted from the fact that they were either very concerned about making changes that were likely to end when the demonstration concluded, or were not sure what the boundaries of deregulation were. Movement, however, resulted from the fact that they considered MTW as distinctive in that it involved only a handful of HAs, and participation was seen as a genuine invitation to reflect on, and modify, some aspects of their policies and procedures. To a greater or lesser degree these officials thought more strategically about aspects of their programs and operations than they might have under normal circumstances and, in so doing, often felt a sense of empowerment. This process sometimes led to proposing or making changes that, in fact, did not require MTW waivers, even prior to QWHRA—i.e., such changes were permissible or, possibly, even required.[90] These HAs all have in common the fact that their leadership took

[90] In some instances this occurred because HA officials were not sure what HUD rules allowed or required and, according to them, because they had not received appropriate help from HUD on such matters prior to MTW.

some advantage of an opportunity to make changes and, by doing so, they and their staff generally experienced more pride of ownership in the programs they administered than is common for HAs. Even so, the policy and procedural changes made by this cluster of agencies have been relatively modest.

At the other end of the continuum are 'opportunity maximizers.' These HA officials believed MTW deregulation to be real enough, or enough of an opportunity, or the only real opportunity they had at the time, so they took it very seriously. Prior to MTW, many of them aggressively promoted and lobbied for deregulation. With the advent of MTW, they were thrilled to be rid of rules and regulations believed not to be consistent with their local situation or with their ability to handle the provision of housing assistance on their own. Such officials tended not to worry much about having to go back to non-MTW status, or certainly did not let that prospect slow them down. Indeed, some were convinced they were making changes that simply could not be repealed. These officials generally tried not only to change the way they did business, but also the nature of their relationship with HUD. Although they proceeded differently across HAs—a few initiating multiple changes from the very beginning and a few moving more incrementally—they saw MTW as license to review basic HA policies or operations, take initiative, and take ownership. Such officials generally see themselves as having significant responsibility for their own destiny.

While these categories represent a range of behavioral responses to MTW, going from minimum to maximum, it should be noted that the change dimension is relative. In particular, none of the HAs, not even those classified as opportunity maximizers, have yet changed the mix or character of their programs, delivery systems, or operations so much that they no longer resemble what they were like before their participation in MTW. For example, none of the MTW HAs went much further than where they had been prior to the demonstration in adopting fundamental private-sector real-estate principles of property-focused management and asset management.[91] What cannot be determined is whether failure to engage in major reconfigurations of inventories, programs, or management is due to the fact that the time period in which they have been involved in MTW is yet too short, the constraints imposed by the structure of MTW are too limiting, the local environment is not adequately supportive, the training of HA personnel is not especially appropriate, or the need to make substantial change is not sufficiently compelling for HA officials.

Has MTW altered the relationship between HAs and HUD? It should not be ignored that MTW originated during a period in which the relationship between HAs and HUD was exceptionally strained. A report on an extensive survey conducted at about the time that HAs were beginning to participate in MTW found that HA officials were the most disaffected of all of

---

[91] A few of them, however, had begun to move in this direction prior to MTW.

HUD 's program implementation partners, observing that, "as customer surveys generally go, the level of dissatisfaction expressed by PHA partners is extraordinary."[92] Likewise, a panel of the National Academy of Public Administration, commenting on the deterioration in HUD-HA relations at the time, concluded, "this relationship needs urgent repair."[93]

The tension between HAs and HUD has long historical antecedents and many causes, but the extent and character of federal regulation of local HAs is a large part of its explanation. The question, then, is whether improved relations between HUD and HAs—where the partnership between the two is perceived to be less adversarial and more supportive—has followed from the deregulation occurring under MTW.

Some formalistic aspects of the relationship between HAs and HUD have changed with MTW. These pertain to the nature of HA reporting, the role played by HUD field office monitors, the fact that MTW HAs can be excluded from the Public Housing Assessment System (PHAS) and related physical inspections and reviews by HUD's Real Estate Assessment Center (REAC), and the responsibilities of HUD's Central Office in reviewing and approving HA waiver and merged-assistance requests. Evidence, and the time period involved in the demonstration, are both insufficient at this point to permit a definitive assessment of the impacts of these changes overall—i.e., whether they have generally improved the working relationship between HAs and HUD.

What is clear at this time, however, is that administering a demonstration involving negotiating MTW agreements on a waiver-by-waiver basis, and overseeing HA activities on a non-standard basis, have placed a heavy burden on HUD, while developing and implementing locally crafted policies and procedures have placed a heavy burden on HAs. This situation has, in fact, added new kinds of pressure to the relationship between HAs and HUD, changing somewhat the nature of the relationship if not yet improving its quality. There are still a good number of MTW HA officials who believe that both the extent of deregulation and the distance between HUD and HAs are not yet great enough.

There is considerable variation in how staff members of MTW HAs and HUD field offices relate to one another. The role that HUD field offices play with respect to MTW HAs has evolved over the last several years; at the beginning of MTW, staff of neither HAs nor HUD knew precisely how that relationship was expected to work, which is very different from the standard relationship between HUD field monitors and non-MTW HAs. To date, some MTW

---

[92] Martin D. Abravanel, Harry P. Hatry, and Christopher Hayes, *How's HUD Doing: Agency Performance As Judged By Its Partners*, U.S. Department of Housing and Urban Development, December 2001, p. 117.

[93] *Evaluating Methods for Monitoring and Improving HUD-Assisted Housing Programs*, National Academy of Public Administration, December 2000, p. xii.

HAs maintain close and good working relations with HUD field staff, seeking their input and advice or checking to see if HA policy or procedural initiatives are acceptable. Others have used the opportunity of MTW to minimize their contact with HUD field office staff, reinforcing their contention that they are not subject to the same level of oversight and review as had been the case—and, consequently, improving their disposition toward HUD by so doing. Interestingly, there appears to be little if any correlation between the quality of HA-HUD field office relationships and the HA behavior categories discussed above.

A final aspect of the HUD-HA relationship affected by MTW involved the provision of technical assistance to HAs by HUD-funded consulting organizations. These organizations not only offered informational and analytic support but also served as mediators and facilitators between the two parties. This is an exceptional arrangement by comparison to that which exists for non-MTW HAs, and some HAs benefited greatly from having access to such specialists. Arguably more important, however, this arrangement was sometimes able to smooth over the difficulties inherent in waiver and merged-assistance negotiations between HUD and HAs—difficulties that might otherwise have strained even further the relationship between the two.

If the Congress were to move in the direction of further deregulation—extending the funding fungibility and programmatic flexibility of MTW to a much larger number of HAs—the MTW experience to date suggests that the relationship between HUD and HAs would have to change even further. For one thing, HUD would not be in a position to negotiate individual agreements with each participating HA about either funding or procedural waivers. Instead, it would have to delineate a basic set of programmatic requirements and performance standards, and create a standardized funding formula. HAs, therefore, would not have to “make the case” and wait for HUD approval for each of their waiver requests, but they would presumably also lose the option to renegotiate their funding packages—as some of the merged-assistance sites have done after the fact—if their financial condition deteriorates for one reason or another. It should be recognized that, in devising a formula for transitioning from multiple funding streams to a single, merged funding system, there might be inadvertent winners and losers. Finally, as discussed further below, large-scale deregulation would probably require systematic reporting on critical program outputs and outcomes by HAs, with HUD staff monitoring adherence to basic performance standards rather than to procedural rules and requirements.

Should housing assistance be under federal or local control? MTW has allowed local HAs to change some of the basic features of federal rental assistance programs. Among the most controversial of these changes are variations in rent rules and subsidy formulas, occupancy requirements, and time limits. These local decisions fundamentally alter the terms of federal assistance, introducing significant differences across communities in terms of who benefits, how much, and for how long. Certainly, some variation across local HAs has always been permitted under the public housing and Section 8 programs, and more has been introduced by QHWRA. But deviations from key federal program requirements have been much greater under MTW, raising the fundamental question of whether low-income households and communities are better served when the terms of federal housing assistance are determined locally or when they are consistent across the country as a whole.

There is no simple answer to this question. As discussed throughout this report, HA leadership at the MTW HAs made decisions about program design based primarily on local norms, values, and priorities. Their understanding of local housing market conditions (and, in come cases, local labor market conditions) was a factor. But in most cases that does not appear to have been the most important factor. Instead, decisions tended to be shaped by local thinking about who deserves assistance, how much assistance is reasonable, whether incentives should be primarily supportive or punitive, and how scarce resources can be allocated fairly.

Under MTW, local, rather than national, political realities constrained the choices that HAs could make. Some communities, particularly those with strong advocates for low-income households and housing issues, imposed more stringent constraints than HUD on some issues. For example, several HAs reported that they did not even consider time limits as an option because they would not be acceptable locally. And one HA used the flexibility allowed under MTW to help achieve a local goal of one-for-one replacement of low-rent housing demolished under HOPE VI. In other communities, however, the local political environment encouraged the HA to be much more restrictive about the terms and conditions of housing assistance while, in a few, there appears to be little or no local interest in public or assisted housing and no meaningful local oversight of HA decisions. In general, HAs appear to have been respectful of and responsive to local norms and priorities; none simply ignored community concerns or overruled local objections.

The local flexibility and independence permitted under MTW appears to allow strong, creative HAs to experiment with innovative solutions to local challenges, and to be more responsive to local conditions and priorities than is often possible where federal program requirements limit the opportunity for variation. Toward this end, for example, one HA used MTW to adjust the community's relative proportion of project-based to tenant-based assistance in ways that better accommodated its unique local market conditions. Through MTW, this was done to an extent not otherwise permissible under standard rules.

Allowing local variation poses risks as well as provides potential benefits. Under MTW, some HAs, for instance, made mistakes that reduced the resources available to address low-income housing needs, and some implemented changes that disadvantaged particular groups of needy households currently served under federal program rules. Moreover, allowing significant variation across HAs inevitably results in some loss of program uniformity across communities, and could also reduce the portability of Section 8 housing choice vouchers. The example of one community's experience is instructive in this respect. Having established time limits on the voucher assistance it provided, HA officials believed it only appropriate to ensure that all voucher recipients within the community—whether their vouchers were issued by the local HA or by another HA and used in the community under the portability rule—be equitably treated. Therefore, the agency decided to absorb all of the portable vouchers within the community's jurisdiction, thereby permitting the HA's rules to apply. Because of the relative market attractiveness of the community, the result was the absorption of a much larger-than-anticipated number of new households, at a substantial cost to the HA—which was operating under a merged-assistance agreement. To compensate financially for this experience, the HA ultimately had to reduce utilization of its rental assistance program, at least for some period.

It is too early in the MTW experience to be able to observe the longer-term results and consequences of deregulation, or to draw more definitive conclusions about the benefits of local versus federal control of housing assistance policy. The MTW evidence available to this point suggests that further deregulation of local HAs may, indeed, yield benefits in terms of program design and implementation innovations but, also, can entail risks that warrant continued watching.

An option that has been proposed involves extending the deregulation experiment to more HAs than the number originally provided for in the MTW legislation. On this score, the MTW experience to date does offer some guidance. As discussed earlier, it seems clear that if deregulation beyond what is authorized by QWHRA, or more funding fungibility authority than is currently permissible, were extended to a much larger group of HAs, the waiver-by-waiver HUD approval process used for the current group of MTW HAs would be infeasible because of the administrative burden involved. HUD would probably have to provide blanket waivers covering some or all categories of regulatory rules and reporting requirements, and ensure a long enough time period for innovations to be tried and evaluated.

One approach to extending deregulation would be for HUD to structure a pre-defined set of waivers (and accompanying reporting requirements) so as to systematically test a limited number of programmatic alternatives—such as flat rents, time limits, or debt financing of capital improvements. This approach would not allow individual HAs as much discretion to design combinations of reforms around local conditions and priorities. But it could yield more systematic evidence about the costs and benefits of particular program reforms if accompanied by a rigorous evaluation design and mandatory data collection on key outcomes, such as the number and characteristics of participating households (particularly incomes, employment, and rent payments), the location and condition of assisted housing units, and possibly the extent to which federal funds are transferred across major expenditure categories. Collection of such information in a standardized format would have to be a minimum requirement for participation if the point is to learn from the experiences of those testing programmatic alternatives.

Alternatively, a pre-defined set of waivers or fungibility allowances could be broadly offered within the framework of some fundamental performance standards, mandating HA and independent measurement and reporting of outcomes in exchange for less federal control. Under this type of approach, HAs could take greater ownership of, and responsibility for, program design decisions, and experiment more freely over the long-term, while HUD could focus on ensuring that key performance standards were being maintained. The challenge here would be to define the performance standards and requirements. What are the fundamental *federal* goals or requirements for low-income housing assistance? How can the achievement of these goals be measured systematically? And what level of performance must HAs achieve in order to remain in compliance with federal requirements?

In addition, any substantial expansion of deregulation and funding fungibility would have to address the reality that HAs vary considerably in terms of past performance and current management capacity. Not all HAs would necessarily be able to take advantage of greater flexibility to significantly improve their programs. But more importantly, it seems almost inevitable that some HAs would fail to meet basic performance standards. One option for addressing this reality would be to limit participation to HAs that already meet some standard of management capacity or programmatic performance, while continuing to regulate other HAs more closely. Alternatively, HUD could extend deregulation to all HAs, giving those that initially fail to meet performance standards time to improve their performance, or mandating incremental progress toward the performance standards each year. Regardless of the approach, however, some HAs may ultimately fail to achieve required outcomes, and HUD will need to have some strategy for withholding funds, assuming control, or transferring responsibility to another entity.

Appendix A
SITE SUMMARIES

Brief descriptions of the MTW initiatives of each of the 18 HAs that began participating in MTW in 1999 or 2000 are presented below. As described in Chapter 3, the agencies are divided into three categories: systemic funding fungibility sites; other systemic sites; and non-systemic sites.

Systemic funding fungibility sites. The initiatives undertaken by the six HAs in this category are as follows:

- **CAMBRIDGE HOUSING AUTHORITY (CHA)—CAMBRIDGE, MA.** The CHA participated in MTW in order to make changes to its occupancy and rent policies and to gain funding fungibility authority. Changes to its public housing occupancy and rent policies include use of site-based waiting lists, minimum rents, ceiling rents, and additional income disregards. CHA changed its voucher program to include security deposits, damage claims paid to landlords, and payments to landlords of up to 120 percent of FMR in the community's tight rental market; it also chose to assist a small number of households at slightly higher income ranges (households earning 40-80 percent area median income) that suffer from extreme rent burden in the local market. The biggest changes for CHA stem from their ability to use funds for development. CHA has leveraged its reserves for the section 8 program, as well as resources from energy savings and operating and voucher subsidies, to use as financing for acquisitions that includes project-based section 8 units.

- **DELAWARE STATE HOUSING AUTHORITY (DSHA)—DOVER, DE.** Participation in MTW allowed DSHA to broaden its self-sufficiency efforts for tenants by instituting several program and policy changes. A three-year time limit was originally proposed (and extended to five years when implemented) for participating MTW families; also, new rent ceilings and escrow savings accounts were established, allowing more families to save for emergencies and/or first month's rent or down payment on a home. DSHA families sign an MTW contract outlining their responsibilities and develop resident action plans detailing the families' goals to obtain and retain employment, including the services needed to attain these goals within three years. Furthermore, DSHA used financial fungibility for accelerated modernization of public housing units, transportation and homebuyers assistance.

- **HOUSING AUTHORITY OF LOUISVILLE (HAL)—LOUISVILLE, KY.** HAL received approval to merge its operating, modernization, and section 8 monies but chose to retain

PFS for its public housing funding calculation. While poised to launch MTW when they applied for the program, a series of local factors stalled HAL's efforts. These factors included: loss of executive staff; staff focus on major redevelopment efforts (including HOPE VI); and significant institutional change (merger of the city and county governments and subsequent merger of the housing authorities). Now that the housing authority is in a more stable staffing and organizational situation, the HA hopes to extend MTW to take advantage of flexibility in rent and occupancy rules as they envision a new direction for one of their public housing developments undergoing physical transformation through HOPE VI.

- **HOUSING AUTHORITY OF PORTLAND (HAP)—PORTLAND, OR.** HAP participated in MTW in an effort to maximize efficiencies in agency operations. MTW allows HAP to combine its operating subsidies, capital allocations, and Section 8 tenant-based assistance in conducting its operations. Under MTW, HAP implemented a comprehensive property management software program to help better track and allocate costs under the merged monies. HAP implemented a preventive maintenance program, shifted some of the waiting lists from central to site-based, streamlined procedures for transfers, and merged its Section 8 voucher and certificate programs.

- **SEATTLE HOUSING AUTHORITY (SHA)—SEATTLE, WA.** The Seattle Housing Authority (SHA) participated in MTW in order to improve financial flexibility and gain some freedom from HUD regulations governing occupancy policies, rent rules, and various administrative matters. SHA has site-based waiting lists and new rent rules that include three steps for two-year "rent ceilings" as an incentive to work. SHA has received four HOPE VI awards, and their MTW flexibility enabled them to make short-term bridge loans to cover part of the initial start-up costs of HOPE VI redevelopment activities. Additionally, SHA used their reserves and modernization money to fund acquisition of units.

- **VANCOUVER HOUSING AUTHORITY (VHA)—VANCOUVER, WA.** The Housing Authority of the City of Vancouver (VHA) participated in the Moving To Work program to promote resident self-sufficiency and reduce and/or redirect some of the Authority's administrative workload. To accomplish these goals VHA combined its Section 8 certificates and vouchers; developed escrow accounts for all MTW participants; established rent ceilings; a five-year housing assistance time limit and a homeownership opportunity program.

Other systemic sites. The initiatives undertaken by the six HAs in this category are as follows:

- **HOUSING AUTHORITY OF THE CITY OF HIGH POINT—HIGH POINT, NC.** The Housing Authority of the City of High Point's MTW initiative affects all of its public housing residents and Section 8 families. The goals of the program are to assist families in moving toward self-sufficiency and to help the HA manage its programs more efficiently. The MTW program allowed the housing authority to introduce modest changes to its mainstream programs. The two primary MTW changes are a minimum rent ($100 for all able bodied households) and the provision of a transportation deduction for families whose head of household works at least 32 hours per week.
- **KEENE HOUSING AUTHORITY (KHA)—KEENE, NH.** The Keene Housing Authority's MTW program, SPECTRUM, includes a greatly expanded Family Self-Sufficiency program, stepped rents and subsidies, and minimum and maximum rents. Public housing residents pay a fixed rent that increases after the first and third years of assistance. Section 8 recipients receive a fixed subsidy that decreases after the first and third years of assistance. The SPECTRUM program provides case management services designed to assist residents in achieving economic self-sufficiency. Participants who cannot afford to pay their rent due to hardships such as loss of employment, change in household income or medical issues have the option of applying for the Safety Net program that provides temporary rent assistance. A participant must have a rent burden of 35% or higher to qualify. Safety Net participants will either be given a payment arrangement, temporary rent reduction or an opportunity to work for rent depending on individual circumstances.
- **LAWRENCE-DOUGLAS COUNTY HOUSING AUTHORITY (LDCHA)—LAWRENCE, KA.** Participation in LDCHA's MTW initiative is mandatory for all non-elderly, non-disabled residents. Elderly and disabled residents may choose to participate. Tenants pay the highest of the minimum rent or 30 percent of their income, not to exceed ceiling rents. When the family reaches 80 percent of area median income, the family pays the MTW ceiling rent. If the family reaches 100 percent of the median income, the family pays income-based rent for up to three years, after which housing assistance is suspended. Participants must work or go to school for at least 20 hours per week, participate in the FSS program, or take part in any approved work related activity, such as a training program or education. LDCHA'S MTW program also includes more increased income deductions, homeownership opportunities, and a social service support network.
- **LINCOLN HOUSING AUTHORITY (LHA)—LINCOLN, NE.** Program changes made by the LHA as part of its MTW initiative apply to all public housing tenants and section 8

recipients. Rent rule highlights include: basing rent on a calculated minimum amount of earned income when the household includes able bodied, non-elderly or disabled persons who are not working or involved in self sufficiency activities; restricted portability; annual recertifications which disregard increases in income during the twelve months between annual reviews; and a flat utility allowance adjusted for bedroom size.

- **PORTAGE METROPOLITAN HOUSING AUTHORITY (PMHA)—RAVENNA, OH.** The Portage Metropolitan Housing Authority's (PMHA) MTW program, HOPES, is designed to encourage self-sufficiency through incentives including income deductions and disregards for work, phased-in rent, and housing that is perceived as more desirable. The program seeks to encourage tenant responsibility by denying rent reductions for sanctioned TANF recipients and denying admission for applicants with zero income. Portage's program promotes employment through program transfers between Section 8 and public housing, the use of scattered site public housing transfers as an incentive, and selected time limits. A two-year time limit applies to a supportive services development serving former homeless households and a three-year time limit applies to scattered site homes. If necessary, residents reaching the time limit may move to other assisted housing without a time limit.

- **TULARE COUNTY HOUSING AUTHORITY—VISALIA, CA.** The housing authority of the County of Tulare's MTW initiative combines flat rents in its public housing with fixed subsidies in its section 8 program. Assistance is terminated when a family's income reaches 120 percent of the area median or after five years in the program, whichever comes first. Either public housing or section 8 families who have members who are not citizens or eligible aliens have an increased flat rent amount or decreased subsidy amount of $25 per ineligible family member. There are no interim re-determinations or utility allowances, and incomes are verified annually for statistical purposes only. Hardship situations are considered on a case-by-case basis.

Non-systemic sites. The initiatives undertaken by the six HAs in this category are as follows:

- **GREENE METROPOLITAN HOUSING AUTHORITY (GMHA)—XENIA, OH.** The GMHA's MTW initiative is designed to help families who receive TANF make progress toward employment and self-sufficiency. GMHA piloted the program with 100 families that were either taken from the waiting list or volunteered from among GMHA's existing residents/participants. These families receive rent relief in the form of stepped rents: year 1 ($50); year 2 ($100); and year 3 ($150). The families also receive some case management and practical training to teach budgeting and life skills. During the third year of the program the residents are required to take a home buying class.

- **MASSACHUSETTS DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (DHCD).** The DHCD manages both federal and state-funded rental assistance programs on a statewide basis. DHCD contracts with nine regional nonprofit housing agencies to administer its federal rental assistance and related housing programs. Two of these agencies (one in Worcester and the other in Boston) were selected to implement DHCD's MTW demonstration. In the former, the Worcester County Department of Transitional Assistance refers a maximum of 122 families that are leaving welfare and are, for the most part, employed, to Rural Housing Improvement (RHI). The program provides them with a shallow subsidy of $250, contribution to an escrow account, and a flexible support budget. RHI hired an MTW program manager and case manager who provide intensive support and case management to participants, including service coordination through a partnership with the department of employment and training. The Boston program, operated by the Metropolitan Boston Housing Partnership (MBHP), targets a maximum of 61 homeless families leaving the shelter system who are either employed or "job ready" with a deep flat subsidy of $700 a month to assist families in becoming self-sufficient. The two MTW programs have a time limit of three years.

- **MINNEAPOLIS PUBLIC HOUSING AUTHORITY—MINNEAPOLIS, MN.** Under MTW, Minneapolis created the "Moving Home Program" which aims to allow 50 families to purchase homes over three years, providing them with Section 8 vouchers to make mortgage payments. Families receive payments for up to five years. Participants must be first time homebuyers, have at least one dependent at home, have one or more adult members in the household employed full time, and have been employed continuously for one year. Additionally, the HA requires participants to participate in the Family Self-Sufficiency program and use their escrow account toward their down payment.

- **SAN ANTONIO HOUSING AUTHORITY (SAHA)—SAN ANTONIO, TX.** The San Antonio Housing Authority (SAHA) targeted its MTW demonstration to residents in three of its public housing communities. Residents in these developments must pay a minimum of $45 monthly rent, with a $10 annual increase. Residents who are unemployed for three months receive an income disregard for 18 months upon finding employment. Upon reaching three years of assistance, MTW participants are to (1) pay $200/month rent, (2) work for one year continuously, (3) have no lease violations, and (4) be employed within 90 days of move-in or a job loss. Two of the three sites contain centers that provide employment-related services such as job placement, childcare, and assistance with transportation.

- **SAN DIEGO HOUSING COMMISSION—SAN DIEGO, CA.** The San Diego Housing Commission's MTW program provides flat rents and fixed subsidies to 22 public housing families and 50 Section 8 families. The public housing families live in the same development, which features a new on-site computer-learning center. They have a fixed rent payment equal to the voucher payment standard with rent remaining the same for five years regardless of income increases. Section 8 households receive a flat subsidy based on the voucher payment standard less rent amount calculated for families based on voucher size. Under the program, a tenant's rent may be higher than 30 percent of income. Both public housing and Section 8 families joined the FSS program with the goal of moving toward self-sufficiency within five years.

- **HOUSING AUTHORITY OF THE COUNTY OF SAN MATEO (HACSM)—BELMONT, CA.** The HACSM'S MTW demonstration applies to 300 new section 8 recipients and incorporates housing assistance into the package of services available through the county's human services agency. Families with incomes that make them eligible for TANF in San Mateo County (whether or not they are receiving such assistance at the time of application) must enter the local welfare self sufficiency program before receiving housing assistance. MTW also allows HACSM to make rent policy changes including a rent increase deferral to promote family reunification and employment. San Mateo County's MTW demonstration calls for a six-year time limit on housing assistance.

Appendix B
MTW ACTIVITIES AND PROGRAM CHANGES CHART

The following chart provides a detailed description of the changes that the MTW HAs made in six broad categories: Rent Policy Changes, Occupancy Policies, Additional Changes to Section 8, Family Self-Sufficiency, PFS and Other Funding Changes, and Other Administrative and Reporting. Short descriptions of the specific changes are listed as subcategories below the broad changes. A HA name listed in the columns to the right of the policy change indicates whether the HA (1) proposed the change, (2) included the change in their HUD Agreement, and/or (3) implemented the change. A chart index is provided below.

2.3 Special Purpose Housing

2.4 Other Occupancy Related

2.5 Penalties and Sanctions

3. ADDITIONAL CHANGES TO SECTION 8

3.1 Tenant and Lease Related Changes

3.2 FMR Related Changes

3.3 Homeownership Related Activities

3.4 Administrative Changes

4. FAMILY SELF SUFFICIENCY

4.1 Eligibility Enrolment Changes

4.2 Escrow Related Changes

5. PFS AND OTHER FUNDING CHANGES

6. OTHER ADMINISTRATIVE AND REPORTING

6.1 Changes to HQS

6.2 Reporting

6.3 Procurement Policy Changes

6.4 Development Costs

6.5 Investment Policy Changes

6.6 Energy Audit

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
1. Rent Policy Changes			
1.1 Flat, Fixed, or Non-Income Based Rent Systems			
Flat PH rents set at 50% of FMR (1BR=$200, 2=250; 3=350, 4=400). Sec 8 subsidy fixed at 50% of FMR. Elderly/disabled exempt from new policy; policy optional for current. Residents	Tulare	Tulare	Tulare
Fixed rents and Sec 8 subsidy based on BR size in 74-unit demo	San Diego		San Diego
Graduated flat rents over 3 yrs-$50/100/150	Greene, High Point	Greene	Greene
Graduated rents for working households; market rents for working households whose incomes are sufficient to afford it (“market rents” is the third temporary rent tier, after 2-years at market, these households go to Brooke rents again and probably move out because of over-market rents. Section 8 rents are still calculated based on regular Section 8 rules (same issue as in Section 1.4)	Seattle	Seattle	Seattle
Flat rents based on size/location (1 BR=$175, 2=225, 3=250, 4=305). Sec 8 for disabled to afford flat rent. Local voucher with subsidy of $40-60 pp	Stevens Point		
Annual stipend for 180 units (2 HAs) with tenant determined allocation between rent and job support	Massachusetts		
Based on set # of hours at minimum wage	Lincoln	Lincoln	Lincoln
Minimum and maximum rent based on number of bedrooms in the unit rented	Lawrence	Lawrence	Lawrence
1.2 Other Rent Changes that Could Exceed Brooke			

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
1.2.1 Minimum Rents			
In excess of $50	Seattle, High Point, Lincoln		
In excess of $75	Vancouver, Keene	Keene	Keene
Based on set # of hours at minimum wage	Lincoln	Lincoln	Lincoln
Based on BR size	Lawrence, San Diego	Lawrence	Lawrence, San Diego
The minimum rent will increase to $50/mo		Vancouver	
For zero income households	Portage	Portage	Portage
Tenants will pay the highest of the minimum or, Brooke rent not to exceed ceiling rent. When tenant reaches 100% of median income, they will pay Brooke rent.	Lawrence	Lawrence	Lawrence
Contract rents approximating affordable market rents will be charged for ph units rented to moderate income families not receiving housing assistance	Lawrence	Lawrence	
Elevated minimum rents to increase annually during participation.	San Antonio	San Antonio	San Antonio
1.2.2 Rents Based on Alternative Income Fractions			
35%	Vancouver		
30% of locally-defined income	Portland		
35% except for elderly/disabled	Delaware		Delaware
Rents for households whose only income is TANF = 25% of gross income, no deductions		Seattle	Seattle
Step Rents. Gradually increasing rents at 30%/45%/60% of the FMR and bedroom size.	Keene	Keene	Keene
1.2.3 Changes in Deductions or Allowances			

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Deny deductions for increased family size	Portage, Delaware	Portage	Portage
Eliminate utility allowances	Tulare, Seattle, Vancouver, San Diego	Tulare	Tulare, San Diego,
Utility allowance based bedroom size rather than payment standard	Portage	Portage	Portage
For Section 8 provide a flat utility allowance, based on bedroom size	Lincoln	Lincoln	Lincoln, Cambridge
Eliminate utility reimbursement	Lincoln	Seattle, Lincoln	Lincoln, Seattle
Proposed flat rents will be set to cover operating costs		Tulare	Tulare
1.3 Additional Deductions, Exemptions, or Income Disregards			
Various local deductions	Lincoln, San Antonio, High Point, Portage	High Point, San Antonio, Portage, Lincoln	High Point, Lincoln, Portage, San Antonio
Deductions for education costs, child care, SSI/SSDI/EAEDC/Veterans, elderly wages	Cambridge	Cambridge	Cambridge
2 yr. Deferral of 75% of income of fathers/others joining family. Exempt up to $20K in asset income. Portion of deferral to FSS account; remainder is rent reduction to tenant for which HUD pays	San Mateo	San Mateo	San Mateo
No rent increase adjustment for increased earnings for 18 months	San Antonio		
No rent increase adjustment for increased earnings		Greene	San Diego, Greene
3 yr. Incremental earned income exemption in lieu of FSS escrow	Portland		
Disregard of interest earned from assets, overtime, and bonuses	Portage	Portage	Portage
Phase-in of rent increase when income increases due to employment	Portage	Portage	Portage
1.4 Ceiling Rents			

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Based on Bedroom size (number of bedrooms)	Lawrence, Lincoln	Lawrence, Lincoln	Lawrence, Lincoln
Assigned to each public housing unit, based on neighborhood comparables	Portage	Portage	Portage
To be determined	High Point		
At “FMR” for each property	Vancouver		
With annual adjustments	Cambridge		
Use Pre-QHWRA HUD Regulations to calculate ceiling rents in 3 ways: (1) Charge FMR, (2) Establish Brooke Rent paid by the 95 percentile of CHA residents, (3) Do Complex calculation based on debt forgiveness, that would for the CHA result in a very high amount.			Cambridge
For households with income from employment, three temporary rent ceilings that will reduce the frequency and size of rent increases		Seattle	Seattle
Eliminate FMR cap by establishing a payment standard between 90% and 110% of FMR.		San Mateo	San Mateo
Rents capped at 30% of the family’s income at time of move in, provide an annual stipend to each participant to be allocated between rent subsidy and a supports budget		Massachusetts	
Rent ceiling for 10 years or 5 years if household is at 100% AMI	Cambridge	Cambridge	Cambridge
1.5 Changes to Recertification Procedures and Allowable Rent Recalculations			
Less than annual recertifications	San Diego, Keene	San Diego, Vancouver, Louisville, Keene	Vancouver, Louisville, Keene
Less than annual recertifications for elderly/fixed-income	Seattle, Cambridge, Keene	Seattle	Vancouver, Seattle
Interim on request only	Portland		

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Interims eliminated except for addition of new adult family member			Greene
Interims eliminated, except for changes in family composition and changes in income that will lower TTP		Lincoln	Lincoln
Interims eliminated except for hardship and if MTW eligibility changes	Lawrence	Lawrence	Lawrence
Individuals who are fired, quit or lose job due to fault will not receive rent reduction for 90 days	Lincoln	Lincoln	Lincoln
Can restructure the annual and interim review process in Section 8/Public Housing		Portland, Cambridge	
1.6 Other Rent Changes			
Separate rent structure for HOPE VI project	Seattle	Seattle	Seattle
Allow tenants to exchange work for rent obligation	Keene	Keene	Keene
$25/mo penalty for illegal member in mixed family	Tulare	Tulare	Tulare
Tenant based assistance provided to owners in form of housing grant (payment standard-tenant contribution)	Lawrence	Lawrence	Lawrence
Provide security deposits or guarantees up to a maximum of 50% of deposit requirements for maximum of two months rent		San Mateo	San Mateo

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
2. Occupancy Policies			
2.1 Time Limited Assistance			
For Sec8/Seattle Jobs Initiative program	Seattle	Seattle	
3 years or until income reaches .80AGMI	Massachusetts	Massachusetts	
Originally proposed to be 3 years (but extended to 5 years), with case-by-case exceptions; family can stay at market rent	Delaware	Delaware	Delaware
5 years for homeowner units	Minneapolis		
5 years	Portland, San Diego, San Antonio	San Diego, San Antonio	San Diego, San Antonio
5 years with 2 hear extension	Vancouver, Keene	Vancouver, Keene	Vancouver, Keene
6 years total; but subsidy reduced by 20%/yr beginning in year three	San Mateo		
5 years with an extension of 1 year		Minneapolis	
5 years or at least until their income reaches 120% of median	Tulare	Tulare	Tulare
6 years		San Mateo	San Mateo
3 years for MTW only; may continue ph or Section 8 assistance after	Greene	Greene	Greene
3 years at ceiling rent	Lincoln	Lincoln	Lincoln
3 year limit on scattered site units, 5 year limit if making economic progress	Portage	Portage	Portage
2.2 Site-based lists			
Site-based	Seattle, Cambridge, Portage, San Antonio[94], Portage	Seattle, Cambridge, Louisville, Delaware, Portland, San Antonio, Portage	Seattle, Cambridge, Delaware, Louisville, San Antonio, Portage

[94] San Antonio has discontinued site-based lists due to their Voluntary Compliance Agreement.

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Quasi site-based resident location preferences. Site based for Sec 8 project based and Single Room Occupancy (SRO) units	Portland		
2.3. Other Waiting List Changes			
Combine PH and Sec8 lists and offer 1st subsidy available	Delaware, Utah, Lawrence	Lawrence, Delaware	Lawrence, Delaware
Selection outside regular list; state HHS to refer 350 families	Tulare	Tulare	Tulare
Create 3 lists (elderly, working, TANF-eligible) with 1-for-1 replacement, e.g., working replaces working	San Mateo		San Mateo
Separate priority Sec 8 list for homeownership households	Minneapolis	Minneapolis	
Delay admission of 0 income households for admissions	Portage	Portage	Portage
PH residents making progress toward self sufficiency given preference for scattered site units	Portage	Portage, San Antonio[95]	Portage, San Antonio
Preferences established for ph families transferring to Section 8	Portage, Keene	San Antonio, Portage, Keene	San Antonio, Portage, Keene
The waiting list will be closed for the duration of the MTW demonstration. Will be reopened when a greater number of applicants are needed.		Vancouver	
Close its family waiting list to single persons who are not disabled or over age 62 since the wait exceeds 2 yrs		Portland	Portland
2.4 Preferences, Income Targeting, and Eligibility			
Local preferences	LA, Lawrence, Portage, Cambridge, Portland, San Antonio, Lincoln, Greene, High Point	Portage, Lawrence, Cambridge, San Mateo, Tulare, Seattle, Portland, Keene	Portage, Lawrence, San Mateo, Keene, Seattle, Portland, Cambridge, Tulare

[95] San Antonio's Voluntary Compliance Agreement no longer allows them to do this.

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Local preference for working/Seattle Jobs Initiative participants by development	Seattle, Lincoln	Seattle, Lincoln	Lincoln
Preference for terminally ill, homeless moving to trans. Housing, and units for developmentally disabled and CMI	Vancouver		
Redefine family to include not otherwise eligible singles	Portland		
Admissions preference for families that volunteer for MTW and are eligible		Greene, San Diego	Greene, San Diego
Preference within MTW for applicants with children who are working or seeking work		San Diego	San Diego
Preference for public housing for: 1) homeless; 2) displaced; 3) working family	Lincoln	Lincoln	Lincoln
Preference for Section 8 for: 1) homeless; 2) displaced; 3) participant in self sufficiency program	Lincoln	Lincoln	Lincoln
Families moving in to ph must be at or below 80% of median income; Families moving in to S8 must be at or below 50% of median income	Lincoln	Lincoln	Lincoln
Will establish a system of preferences for TANF-Eligible, very low income working families who are ineligible for Success and disabled who are ineligible for Success		San Mateo	San Mateo
Preferences to strengthen a household's passage through the local low-income housing continuum from highly service-enriched housing operated by specialized non-profits to independent living in public housing or with a HCV.		Seattle	Seattle
Preferences to simplify admissions, and remove barriers and requirements for admission to public housing (preferences are: income < 30% AMI and/or homeless, at the time of interview or within the last 12 months.		Seattle	Seattle
Referrals by partner agencies		Massachusetts	Massachusetts
2.5 Revised Income Definitions			

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Use gross income for annual reevaluation	Massachusetts		
Revise income sources and exemptions to be more fair	Portland		
Excludes income of full-time students (either HOH or Dependent) between the ages of 19-25.	San Antonio	San Antonio	San Antonio
Includes income of full time students over age 22 in annual income			Lincoln
Housing assistance will be terminated when an MTW participant's annual income is equal or exceeds 80% of the area median income		Massachusetts	
2.6 Changes to Recertification Procedures			
Less than annual recertifications	San Diego, Keene	Vancouver, Louisville, Keene	San Diego, Louisville, Keene
Less than annual recertifications for elderly households	Seattle, Keene	Seattle	Seattle
Recertification every 3 years for elderly/disabled; threshold for interims	Vancouver		
Initial certification only; interim only for hardship cases through safety net, rent changes temporary	Keene	Keene	Keene
Interim on request only; limited to one per year.	Portland		
Recertifications conducted on a rolling basis from date of last rent change	Portage	Portage	
Can restructure the annual and interim review process in Section 8/Public Housing		Portland, Cambridge	
Certification every two years wit interim tenant self certification or third party certification			
2.7 Special Purpose Housing			
Admit near elderly (55+) with local preference to elderly properties	Cambridge		

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Service rich environments for special populations	Portage, Seattle	Portage, Seattle	Portage
Create one alcohol/drug free development	Portland		
Amend the definition of elderly in elderly developments to include applicants/residents no younger than 55 years old.		Cambridge	
Create selected alcohol free housing. Families with a member in recovery will have a preference for units in alcohol free housing		Portland	
2.8 Other Occupancy Related			
Establish self-sufficiency requirements for new employable, but not currently employed residents entering agency owned developments.		Seattle	Seattle
Transfer intake functions to state WTW program	San Mateo		
Revise grievance process	Vancouver	Vancouver	
Annual lease renewals	Portage, Lincoln, San Diego		
Modifications to public housing lease may be made through addendum	San Antonio	San Antonio, Greene	San Antonio
Revise lease terms for Sec 8	Cambridge	Cambridge	Cambridge
Conditional lease for disabled	Seattle		
Single, non-elderly/disabled adult will be issued a 0-bedroom voucher		Lincoln	Lincoln
Families in certain ph projects will receive tenant based vouchers		Lawrence	
Adults must work or participate in work related activities	Lawrence	Lawrence	Lawrence
Adults in MTW must work	Greene	Greene	Greene
Scattered site public housing reserved for families making economic progress	Portage	Portage	Portage
Preferences established for transfers from ph to Section 8	Portage, San Antonio, Keene	Portage, San Antonio, Keene	Portage, San Antonio, Keene

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Homeless, those with self sufficiency plan, no history of drug or crimes are targeted to receive on-site service at transitional housing (ph projects)	Portage	Portage	Portage
All security deposits equivalent to one months rent or minimum of $200	Portage	Portage	
2.9 Penalties and Sanctions			
No rent reduction if income decreases due to tenant's fault	Delaware, Keene	Keene	Lincoln, Keene
No rent reduction for sanctioned welfare recipients	Portage, Keene	Portage, Keene	Portage, Keene
No rent reduction if income drops	Greene		
MTW participants who have DHS workforce development participation terminated for non-compliance may have MTW or housing assistance terminated		Greene	Greene
Section 8 assistance is terminated, PH rents raised to FMR, if family fails to meet program requirements.	Keene	Keene	Keene
Housing Assistance will be suspended if family fails to meet program requirements		Lawrence	Lawrence
Families who receive preference for housing due to MTW will lose housing is they do not meet program requirements		Greene	Greene
No rent adjustment if fired	Lincoln	Lincoln	Lincoln
If a resident's ABC cash assistance is sanctioned, the resident's portion of rent will not decrease with the decrease in income		Delaware	Delaware
Strikes are issued in conjunction with ABC program		Delaware	Delaware
Exemption from MTW activities with Doctor's statement (must renew annually). Head of Household must gain employment within 90 days.	San Antonio	San Antonio	San Antonio
Transfer fee ($100 for HH that adds baby or another member and moves to a bigger unit)			Cambridge

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
3. Additional Changes to Section 8			
3.1 Tenant and Lease Related Changes			
Allow 5 (instead of 1) year term for project based subsidy for non-profits	Portage	Portage	Portage
Waive 90 day holdback requirement	San Mateo, Vancouver, Portland, Portage		
Allow 180 day search period	San Mateo, Portage	San Mateo, Portage	San Mateo, Portage
Permit crossover from PH to Sec 8 for families in good standing	Keene	Keene	Keene
Allow month-to-month lease after 1 yr.	Portland		
Section 8 landlord may claim reimbursement for up to two months unpaid rent to owner		Lawrence	Lawrence
Section 8 landlord may claim reimbursement for up to one months rent	Portage	Portage	Portage
3.2 FMR Related Changes			
Set payment standard at 120% of FMR	Portland		
Limit rent to 110% of FMR at props with >20% Sec 8	San Mateo		
Limit section 8 rent and utilities to 70% Income	Portland		
Eliminate FMR cap	Lawrence, Tulare, San Mateo,	Lawrence, Tulare	Lawrence, Tulare
Payment standards may be readjusted to exceed FMR	Lincoln	Lincoln	Lincoln
3.3 Homeownership Related Activities			
Use Sec 8 for homeownership	Minneapolis, Cambridge, Portage	Minneapolis, Portage, Seattle	Minneapolis, Portage, Seattle
Use Sec 8 reserves for homeownership	Highpoint		
Create non-portable local voucher usable for mortgage	Keene		

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
3.4 Administrative Changes			
Project base more than 15% of units	Cambridge	Cambridge, Seattle	Cambridge, Seattle
Eliminate portability	Lincoln, San Diego	Lincoln, Greene, Lawrence, Vancouver, Delaware	Lincoln, Greene, Lawrence, Vancouver, Delaware
Limit portability to agency's jurisdiction	Delaware	Delaware, Keene	Delaware, Keene
MTW Program will operate as separate and distinct from Section 8 certificate and voucher program		Massachusetts	
May adopt a reasonable policy and process for project basing Section 8 leased housing assistance		Cambridge, Seattle	Seattle
Devise more cost effective methods of controlling and reducing utility costs in housing authority paid units and specifically to terminate the practice of establishing a surcharge for excess utilities in those units as outlines in 24 CFR 965.506		Portland	
MTW Program will operate as separate and distinct from Section 8 certificate and voucher program		Massachusetts	
May adopt a reasonable policy and process for project basing Section 8 leased housing assistance		Cambridge	
Devise more cost effective methods of controlling and reducing utility costs in housing authority paid units and specifically to terminate the practice of establishing a surcharge for excess utilities in those units as outlines in 24 CFR 965.506		Portland	
Permit currently unacceptable unit types, (Single Room Occupancy (SRO) units	Cambridge		
Reinstate security deposit guarantee for .50 of deposit	San Mateo	San Mateo	San Mateo

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
4. Family Self Sufficiency			
4.1 Eligibility Enrolment Changes			
Use FSS coordinator grant for PH and Sec 8	High Point, Portage	Portage	Portage
Count MTW participants for FSS	San Diego, Lincoln, San Antonio	San Antonio	San Antonio
Replace FSS contract with MTW contract	San Diego, Lincoln, San Antonio	Delaware, Keene, Vancouver, San Antonio	Delaware, Vancouver, San Antonio
Expand FSS eligible population		San Mateo, Delaware, Vancouver	San Mateo, Delaware, Vancouver
Mandatory FSS in Jobs Plus site	Seattle		
Mandatory FSS for TANF and TANF-eligible families	San Mateo		
Reduce mandatory FSS participation	San Diego		
Exemption from FSS requirements		Cambridge, Seattle, Portland, Louisville	Cambridge, Seattle, Portland, Louisville
Term of FSS contract will be based on the family goal plan; maintain required number of families in FSS program but no minimum requirement for S8 or ph; enrollment preference for families with children		Lincoln	Lincoln
Required Resident Self-Reliance program for all MTW families	Keene	Keene	Keene
Mandatory MTW/FSS participation for new residents other than elderly & disabled. Voluntary MTW/FSS participation for existing residents at MTW HAs		San Antonio	San Antonio
4.2 Escrow Related Changes			
Use FSS escrow account for down payment and repairs	Minneapolis	Minneapolis	
Mandatory FSS or MTW; will offer	Vancouver, San	Vancouver, San	Vancouver, San

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
escrows to all tenants	Antonio	Antonio	Antonio
Mandatory savings	Louisville	Massachusetts	
Allow continued escrow even if income exceeds limit	San Mateo	San Mateo	San Mateo
Mandatory FSS escrow after reaching ceiling rent of $120	Delaware		
Optional FSS escrow for PH and no escrow for Sec 8	Keene		
Establish a savings account into which the family will deposit the difference between the family's TTP Cap and 35 % of adjusted income		Delaware	Delaware
All FSS families required to transfer to MTW when their original FSS contracts expire. They are able to maintain their escrow accounts but no additional deposits made. Interest accrues. Must complete MTW requirements to access account.	Keene	Keene	Keene
Replace FSS with Renter Certification, Family Focus, and Participation for Homeownership		Lawrence	
Residents successfully meeting program goals can use escrow for education, transportation and homeownership		San Antonio	San Antonio
Escrow accounts for unsuccessful participants are forfeited		San Antonio	San Antonio
MTW/FSS participants who graduate will be given priority for available homes under lease-purchase homeownership program		San Antonio, Portage	San Antonio, Portage

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
5. PFS and Other Funding Changes			
Modernization funding can be used for MTW activity		San Antonio	San Antonio
Combine funds/provide as lump sum. Use 96 as CGP base	Vancouver		
Full fundability of programs; keep subsidy despite higher rents. Fix CIAP funding at $300K/yr	Keene		
Request to combine funds other than CGP/PFS/Sec8: DEG	Seattle, San Diego, Delaware		
Request to combine funds other than CGP/PFS/Sec8: Economic Development	San Antonio		
May pool PFS, modernization funds, and S8	Lincoln	Lincoln	
Keep/use entire Sec 8 ACC including reserves	Lincoln, Seattle, Tulare	Cambridge, Seattle, Portland, Louisville, Delaware, Keene, Massachusetts, San Mateo, Tulare, Vancouver, Lincoln	Cambridge, Seattle, Portland, Louisville, Delaware, Keene, Massachusetts, San Mateo, Tulare, Vancouver, Lincoln
Unexpended funds will go into Operating Funds for PH and Section 8 to be used later for federal programs		Lincoln	
Remove caps on reserves	Portland, Cambridge	Cambridge, Portland, Seattle	
Hold agency harmless for FSS escrow	Cambridge		
Special treatment of off line unit	San Diego		
PHA to keep interest on escrow accounts	High Point		Seattle
PHA to keep interest on tenant trust accounts (not FSS participants)			
Use funds for outside orgs, state aided projects	Cambridge	Cambridge	Cambridge

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Use funds for acquisition, debt service, bridge loans	Cambridge, Seattle	Cambridge, Seattle, Portland, Delaware, Louisville, Vancouver	Cambridge, Seattle
Refinance projects for capital improvements	Seattle	Seattle	Seattle
Various asset management proposals	Louisville	Portland	
Keep Performance Funding System (PFS) and Capital/Modernization funds for demolished units, using the funds for an MTW assistance fund	Louisville		
Use CGP to create employment opportunities	Greene		
Use CGP to create Sec8 video	Portage		
Lump sum draw downs for block grant funds	Seattle	Seattle	Seattle
Use Comp Grant funds for Section 8 management improvement	Portage	Portage	Portage
Will make a unit available for resident use at each of its five public housing HAs for family and supportive services	Portage	Portage	Portage
Combine its public housing operating subsidies, modernization funds, and tenant based section 8 assistance.		Vancouver, Seattle, Portland, Cambridge, Delaware, Louisville	Cambridge, Seattle
Does not receive public housing operating subsidy from HUD therefore proposed MTW flat rents for conventional units will be set to cover operating costs		Vancouver	
Section 8 Tenant Based Assistance will be disbursed by HUD to the Agency in accordance with standard HUD procedures for the disbursement of such funds		Seattle	Seattle

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
In requisitioning modernization funds, will not provide line item detail, but will request these funds using a single line item. May or may not accelerate draw down of funds to fund reserve.		Cambridge, Seattle, Portland, Louisville, Delaware, Vancouver	Cambridge, Seattle

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
6. Other Administrative and Reporting			
6.1 Changes to HQS			
Use local standards instead of HQS	Portage, Vancouver	Portage, Cambridge, Seattle	Portage
Waive initial inspection. For new props.; owners to self certify if >5% certs and OK for 3 years. HA to inspect 20% of units annually	Vancouver		
Inspect public housing units every 2 years and up to 3 yr. interval for certain properties with 5% Sec 8 tenants	Portland		
Replace HQS with local C/O for approx. 180 families	Massachusetts		
Consolidate inspections for 2 Sec 8 Mod Rehab buildings	Portage	Portage	Portage
Revise tenant based Section 8 inspection procedures for owners of single occupancy buildings who have a record of high performance and new buildings		Portland	
Adopt new inspection policies based on NQS		Portland	
Adopt new HQS form and new HQS standard that is higher than that currently required by HUD		Vancouver	
HUD procedures for Annual inspections will not be utilized, but must ensure that all housing meets HQS		Massachusetts	
Landlord has option to self-certify HQS	Keene	Keene	Keene
Use a risk-based inspection protocol; every unit receives either a limited or comprehensive inspection annually.	Seattle	Seattle	Seattle
6.2 Reporting			

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Eliminate PHMAP or SEMAP	Highpoint, Cambridge, Seattle, Delaware, Portland, Louisville	Cambridge, Portland, Seattle, Louisville, Delaware, Vancouver	Cambridge, Portland, Seattle, Louisville, Delaware, Vancouver
Single annual program report		Cambridge, Portland, Seattle, Louisville, Delaware, Vancouver	Cambridge, Portland, Seattle, Louisville, Delaware, Vancouver
Will not be scored on certain SEMAP or PHAs indicators		Lawrence, Lincoln, San Antonio	San Antonio
Single annual financial report	Cambridge, Delaware	Seattle	Seattle
Eliminate all HUD forms; use generic budget forms	Vancouver, Keene		
Eliminate HUD debt service forms	Vancouver		
Eliminate 50058	Cambridge, Tulare, Keene, Lawrence		
Eliminate 50058 for elderly	Seattle		
Modify certain HUD reports		Lawrence	
Report on SEMAP Indicators, except following rent reasonableness, FMR limit, and payment standard, correct tenant rent calculations, and FSS standards		Keene	
Annual MTW plan and report to replace HUD Annul Plan		Cambridge, Portland, Louisville, Delaware, Seattle, Vancouver	Cambridge, Portland, Louisville, Delaware, Seattle, Vancouver
6.3 Procurement Policy Changes			
Various procurement related, e.g., use state investment rules	Seattle		
Various procurement related, e.g., use state investment rules, modify audit guidelines	Tulare, High Point		

MTW ACTIVITIES AND PROGRAM CHANGES			
	Changes/ Activities: Proposed	**Changes/ Activities: MTW Agreement**	**Changes/ Activities: Implemented**
Establish procurement rules or alternate procurement system			
Has requested to follow state law for wage rate monitoring than federal law		Seattle	
May utilize an alternative system of procurement		Louisville	
Energy Performance Contracting			
6.4 Development Costs			
Create local Total Development Cost limits	Seattle	Seattle	
Waive development regulations	Louisville		
6.5 Investment Policy Changes			
Adopt state investment policies	Seattle	Portland, Seattle	Portland
6.6 Energy Audit			
Replace HUD requirement for comprehensive energy audit every five years with locally designed protocol.		Seattle	Seattle